Armenian Copper Programme cjsc

Consolidated Financial Statements
for the year ended 31 December 2009

Contents

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Armenian Copper Programme cjsc (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2(d), which describes that the Group does not expect significant positive cash flows from its current operations and needs financing for the development and future operation of the Teghout mine. This condition, along with other matters described in note 2(d), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

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Andrew Coxshall
Director

Tigran Gasparyan
Head of Audit Department

KPMG Armenia

KPMG Armenia cjsc
16 July 2010

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’000 AMD	Note	2009	2008
Revenue	5	25,482,898	17,557,710
Cost of sales	6	(20,477,868)	(16,379,035)
Gross profit		**5,005,030**	**1,178,675**
Other income		234,752	347,885
Distribution expenses		(210,207)	(211,374)
Administrative expenses	7	(788,710)	(1,634,067)
Impairment losses	8	(161,083)	(2,665,972)
Other expenses		(191,868)	(288,523)
Results from operating activities		**3,887,914**	**(3,273,376)**
Finance income	9	7,109	58,986
Finance costs	9	(1,782,233)	(659,141)
Net finance costs		**(1,775,124)**	**(600,155)**
Profit/(loss) before income tax		**2,112,790**	**(3,873,531)**
Income tax (expense)/benefit	10	(848,427)	379,303
Profit/(loss) for the year		**1,264,363**	**(3,494,228)**
Other comprehensive income			
Impairment loss of property, plant and equipment, net of income tax		-	(4,115,095)
Total comprehensive income/(loss) for the year		**1,264,363**	**(7,609,323)**

These consolidated financial statements were approved by the Members of the Board of Directors on 16 July 2010 and were signed on its behalf by:

Gagik Arzumanyan
Executive Director

Tigran Khachatryan
Financial Director

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 47.

’000 AMD	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	11	7,715,993	5,237,583
Intangible assets		66,359	62,059
Investment property	12	161,410	428,650
Mining property	13	2,722,449	2,717,785
Borrowings given to related parties		48,522	23,449
Prepayments for non-current assets	14	3,151,556	2,883,785
VAT recoverable	16	657,888	472,012
Other non-current assets		9,378	9,378
Total non-current assets		**14,533,555**	**11,834,701**
Current assets			
Inventories	15	4,745,756	3,036,601
Current tax assets		-	172,654
Trade and other receivables	16	5,119,526	4,607,337
Borrowings given to related parties		11,430	26,320
Prepaid finance cost	17	151,030	151,030
Cash and cash equivalents	18	1,121,870	19,320
Total current assets		**11,149,612**	**8,013,262**
Total assets		**25,683,167**	**19,847,963**
EQUITY AND LIABILITIES			
Equity	19		
Share capital		3,069,716	3,069,716
Property, plant and equipment revaluation reserve		837,080	883,643
Retained earnings		5,934,905	4,623,979
Total equity		**9,841,701**	**8,577,338**
Non-current liabilities			
Loans and borrowings	20	5,432,169	6,709,719
Other taxes payable		-	64,100
Government grants		74,738	76,263
Total non-current liabilities		**5,506,907**	**6,850,082**
Current liabilities			
Loans and borrowings	20	7,235,665	3,578,456
Trade and other payables	21	2,424,058	789,240
Provisions	22	48,286	52,408
Current tax liabilities		626,550	439
Total current liabilities		**10,334,559**	**4,420,543**
Total liabilities		**15,841,466**	**11,270,625**
Total equity and liabilities		**25,683,167**	**19,847,963**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 47.

'000 AMD	**Share capital**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2008	**3,069,716**	**5,439,850**	**7,677,095**	**16,186,661**
Total comprehensive income				
Loss for the year	-	-	(3,494,228)	(3,494,228)
Other comprehensive income				
Impairment loss of property, plant and equipment, net of deferred tax of AMD 1,028,819 thousand	-	(4,115,095)	-	(4,115,095)
Total comprehensive loss for the year	**-**	**(4,115,095)**	**(3,494,228)**	**(7,609,323)**
Realisation of property, plant and equipment revaluation reserve	-	(441,112)	441,112	-
Balance at 31 December 2008	**3,069,716**	**883,643**	**4,623,979**	**8,577,338**
Total comprehensive income				
Profit for the year	-	-	1,264,363	1,264,363
Total comprehensive income for the year	**-**	**-**	**1,264,363**	**1,264,363**
Realisation of property, plant and equipment revaluation reserve	-	(46,563)	46,563	-
Balance at 31 December 2009	**3,069,716**	**837,080**	**5,934,905**	**9,841,701**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 47.

’000 AMD	**2009**	**2008**
OPERATING ACTIVITIES		
Cash received from customers, inclusive of VAT	23,332,242	18,922,882
Cash received from state budget (VAT)	3,634,000	4,245,000
Cash paid to suppliers, inclusive of VAT	(22,126,322)	(21,619,682)
Cash paid to employees	(689,446)	(1,354,988)
Income tax paid	(49,662)	(228,917)
Payment of taxes other than on income	(348,253)	(686,353)
Interest paid	(644,889)	(715,533)
Cash flows from/used in operating activities	**3,107,670**	**(1,437,591)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,490,084)	(5,483,597)
Investment in mining property	(4,664)	(333,260)
Investment in exploration and evaluation assets	-	(394,564)
Purchase of intangible assets	(4,300)	(14,000)
Proceeds from sale of property, plant and equipment	7,035	21,350
Borrowings given	(25,981)	(1,330,485)
Repayment of borrowings given	15,798	1,306,630
Proceeds from other investments	-	28,000
Interest received	7,109	34,047
Cash flows used in investing activities	**(2,495,087)**	**(6,165,879)**
FINANCING ACTIVITIES		
Proceeds from borrowings	5,538,445	9,578,634
Repayment of borrowings	(5,173,244)	(2,090,935)
Cash flows from financing activities	**365,201**	**7,487,699**
Net increase/(decrease) in cash and cash equivalents	**977,784**	**(115,771)**
Cash and cash equivalents at beginning of year	19,320	140,756
Effect of exchange rate fluctuations on cash and cash equivalents	124,766	(5,665)
Cash and cash equivalents at end of year (note 18)	**1,121,870**	**19,320**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 47.

1 Background

(a) Business environment

Armenian business environment

Armenia has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Armenia involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the economy of Armenia have further increased the level of economic uncertainty in the environment. These consolidated financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

Armenian Copper Programme cjsc (the "Company") and its subsidiary Teghout cjsc (together referred to as the "Group") comprise Armenian closed joint stock companies as defined in the Civil Code of the Republic of Armenia. The Company was established in accordance with the legislation of the Republic of Armenia in August 1997.

The Company's registered office is 19 Khanjyan Street, Yerevan, Republic of Armenia.

The Company's current principal activity is the production and sale of blister copper at the Alaverdi melting plant, Republic of Armenia. All production of the Company is currently sold outside of Armenia. Also, the Group is involved in the development of mining property in Teghout mine and the construction of a processing plant in the deposit area. The Group's intended future principal activity is the extraction, processing and sale of molybdenum and copper concentrates from the Teghout mine.

The Group's authorised share capital is AMD 5 billion. As of 31 December 2009 the respective shareholdings were as follows:

- VALLEX F.M. Establishment 80.7%, incorporated in Liechtenstein
- Valery Medzhlumyan 19.3%

The Group is ultimately controlled by a single individual, Mr Valery Medzhlumyan, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside of the Group. Related party transactions are detailed in note 28.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for property, plant and equipment that is remeasured at fair value on a regular basis and investments classified as available-for-sale that are stated at fair value.

(c) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

(d) Going concern

Due to the significant decline in copper prices in the third quarter of 2008 the Group suspended the activities relating to the exploitation of the Alaverdi mine and recognised an impairment loss on mining property of the Alaverdi deposit, property, plant and equipment relating to the Alaverdi deposit and Alaverdi melting plant.

Although copper prices partly recovered in 2009 the management does not plan to commence the Alaverdi mine exploitation in the foreseeable future due to uncertainties of ore reserves and unfavourable commercial feasibility of the mine. The management also forecasts that continued production and sale of blister copper from the Alaverdi melting plant is expected only to result in marginal profit in the foreseeable future due to increased cost of production. Increase in gross profit in 2009 is largely attributable to significant volatility of copper prices during 2009 as the quotation period for the final price of concentrate purchases (decided by the Company) is longer than the quotation period for blister copper sales.

As described in note 1(b), the Group is in the process of developing the Teghout mine. In order to keep the workforce in the district available for the future operation of the Teghout mine, the Group intends to continue production of blister copper at the Alaverdi melting plant at least until the Teghout production facilities are operational.

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

In June 2008 the Company signed a loan agreement with VTB Bank ojsc (Russian Federation) for a total credit line of USD 249,500 thousand (1 USD = AMD 377.89 as at 31 December 2009). Subsequent significant liquidity stress and the decline of metal prices in the world in the second half of 2008 resulted in the suspension of the financing. Beginning from March 2009 world metal prices began to recover. In 2009 new principal terms of a new loan agreement were agreed with VTB Bank ojsc for a total credit line of USD 283,300 thousand which is going to replace the first agreement and at the date of signing of these consolidated financial statements the new loan agreement was in the process of review and final approval by VTB Bank ojsc management.

In addition, the Group has significant loans and borrowings, as disclosed in note 20. The lack of sustainable profitability from the Group's current activities and the uncertainty regarding future project financing could affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions similar to those applied in earlier transactions. The ultimate controlling shareholder has expressed his intention to provide necessary financial support and liquidity to the Group for it to maintain operations, as and when required.

The material uncertainties described above may cast significant doubt on the Group's ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern as management expects in the foreseeable future to secure sufficient financing to continue development of the Teghout mine from VTB Bank ojsc.

(e) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note 2(d) – going concern;
- Note 2(f) – ore reserves;
- Note 11 – impairment of property, plant and equipment and mining property;
- Note 14 – recoverability of prepayments for non-current assets;
- Note 22 – provisions.

(f) Ore reserves

The total ore reserve estimates of the Teghout deposit was first established by the USSR State Committee for Reserves in 1991 at approximately 454 million tonnes with an average content of copper of 0.35% and molybdenum of 0.022%.

Approximately 35% of the total deposit's ore reserve estimates have been re-estimated and the first stage of the mine exploitation plan was drawn up in mid 2008 by Strathcona Mineral Services Limited based on international standards of mineral resources assessment and reporting which showed the following million tones of ore 135.8 – measured, 14.2 – indicated and 16.6 – inferred. The first stage of the evaluation and exploitation plan assumes extraction of 113.6 million tones of ore with an average content of copper of 0.33% and molybdenum of 0.011% to be extracted by 2022. For the rest of the reserves further evaluation and exploitation plans will be drawn up when the first stage of exploitation nears its end.

There is a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Group. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Group's ore reserve estimates.

The Group operates under a Licence for the control and use of the Teghout copper-molybdenum deposit which expires in 2026. In preparing these consolidated financial statements management has assumed that the Licence will be prolonged beyond 2026. This assumption is based on the provisions of the Concession Law which state that the License is expected to be prolonged if no significant violations of the Licensee's obligations took place during the term of the License.

The Group uses its ore reserve estimates in evaluating property, plant and equipment and mining property impairments and useful lives.

(g) Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policy in presentation of financial statements.

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising in retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group's non-derivative financial assets are loans and receivables.

Loans and receivables

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

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments

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

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

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

(iv) Share capital

Ordinary shares

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at revalued amounts less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” or “other expenses” in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Revaluation

Items of property, plant and equipment are measured at fair value, based on periodic valuation by external independent valuers. A revaluation increase on an item of property, plant and equipment is recognised directly in the revaluation reserve in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of property, plant and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in other comprehensive income, in which case the reversing amount is recognised directly in other comprehensive income. When a revalued asset is sold, the amount included in the revaluation reserve is transferred to retained earnings. The difference between depreciation based on the revalued carrying amount of the property, plant and equipment and depreciation based on the original cost is transferred from revaluation reserve to retained earnings.

(iv) Depreciation

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

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

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

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

(e) Investment property

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

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

(f) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

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

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

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(h) Exploration and evaluation assets

Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and includes costs such as costs of acquisition of mineral rights, geological and geophysical costs, exploratory drilling, sample testing, the costs of pre-feasibility studies, assembling and production equipment and overheads associated with exploration activities.

Exploration and evaluation expenditure for each area of interest are capitalised and are carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recovered through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing or planned for the future.

Exploration and evaluation assets are classified as tangible or intangible based on their nature. The exploration and evaluation assets are no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and are reclassified as a mining property.

Activities prior to the acquisition of the mineral rights are pre-exploration. Pre-exploration costs are expensed and include such costs as initial technical and economical assessment of a project, geological model definition of minerals and its evaluation, and overheads associated with the pre-exploration activities.

(i) Mining property

Mining property is stated at cost less accumulated depreciation and impairment losses. The cost in relation to areas of interest represents reclassified exploration and evaluation assets and directly attributable expenditure for mine stripping and preparation for extraction.

Mining property is depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate or are written off if the property is abandoned.

(j) Inventories and cost of sales

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The Group’s copper concentrate purchase contracts, in general, provide for a provisional payment as specified in individual contracts, those are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period for copper concentrate is from two to four months after the month of shipment.

The Group’s provisionally priced purchase contracts contain an embedded derivative that, because it is unrelated to the commodity purchase, is required to be separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade payable or advances paid on the statement of financial position and marked to market (fair value) through cost of sales each period with reference to the appropriate commodity forward curve until the date of final settlement.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For exploration and evaluation assets the following facts and circumstances indicate that exploration and evaluation assets should be tested for impairment:

- the period for which the entity has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(m) Pensions

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

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Site restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration and planting trees is recognised in respect of developing an open pit mine, waste ore accumulation, infrastructure, tailing pool and plant construction in the mine area. A corresponding asset is recognized in property, plant and equipment. Site restoration costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax risk-free rate. The unwinding of the discount is expensed as incurred and recognized in profit or loss as a finance cost. The estimated future costs of restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, timing of the restoration or in the discount rate applied are added to or deducted from the cost of the respective asset.

(o) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Transfer of risks and rewards related to the sales of blister copper occur on completion of loading into overseas vessel at port of shipment.

The Group’s copper sales contracts, in general, provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period for copper is up to two months after the risks and rewards of ownership have been transferred to the buyer.

The Group’s provisionally priced sales contracts contain an embedded derivative that, because it is unrelated to the commodity sale, is required to be separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade receivable or prepayment received on the statement of financial position and marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(p) Other expenses

(i) Lease payments

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

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

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

(ii) Social expenditure

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

(q) Finance income and costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(r) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(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 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Investment property

The fair value of investment property, which is determined for disclosure purposes, is estimated based on the market values.

(c) Trade and other receivables and borrowings given

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

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(e) Derivatives

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

5 Revenue

’000 AMD	2009	2008
Revenues from sale of blister copper	25,384,728	17,387,278
Revenues from sale of other products	93,151	108,842
Revenue from services provided	5,019	61,590
	25,482,898	**17,557,710**

In 2009 and 2008 approximately 25% to 50% of the revenue from each lot of shipped blister copper by the Group is attributable to gold contained in the blister copper.

At 31 December 2009 the Group had outstanding provisionally priced sales of AMD 5,916,955 thousand (2008: AMD 1,796,592 thousand) consisting of 1,366 dry metric tonnes (2008: 821 dry metric tones) of blister copper, which had a fair value of AMD 6,307,392 thousand (2008: AMD 1,674,460 thousand) including the embedded derivative.

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

6 Cost of sales

’000 AMD	2009	2008
Purchased copper concentrate	18,555,089	13,814,394
Cost of gas	954,550	556,941
Materials and spare parts	563,550	859,335
Labour and wages	343,984	710,969
Depreciation and amortisation	60,695	437,396
	20,477,868	**16,379,035**

At 31 December 2009 the Group had outstanding provisionally priced purchases of AMD 5,840,689 thousand (2008: AMD 3,527,362 thousand) consisting of 8,736 dry metric tonnes (2008: 9,460 dry metric tonnes) of copper concentrate, which had a fair value of AMD 6,182,187 thousand (2008: AMD 2,645,775 thousand) including the embedded derivative.

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

7 Administrative expenses

'000 AMD	2009	2008
Payroll expenses	237,928	468,846
Environmental fees	161,191	157,797
Taxes other than income tax	56,995	275,948
Depreciation	43,236	136,444
Utilities and communication expenses	39,763	52,284
Maintenance	31,628	82,753
Representation expenses and business trips	25,684	40,078
Bank charges	18,217	54,035
Audit and consulting fees	11,156	31,586
Fines and penalties	1,992	19,815
Other administrative expenses	160,920	314,481
	788,710	**1,634,067**

The average number of employees during the year ended 31 December 2009 was 897 (2008: 1,290). The reduction in the average number of employees in 2009 is mainly attributable to the workforce previously employed on the exploitation of Alaverdi mine and the ore processing plant.

8 Impairment losses

'000 AMD	2009	2008
Reversal of impairment on VAT recoverable (note 16)	174,904	356,436
Impairment and write off of property, plant and equipment (note 11)	(335,987)	(1,859,619)
Mining property impairment (note 13)	-	(1,162,789)
	(161,083)	**(2,665,972)**

9 Finance income and finance costs

’000 AMD	2009	2008
Recognised in profit or loss		
Interest income	7,109	58,986
Interest expense on loans and borrowings	(90,269)	(576,495)
Net foreign exchange loss	(1,691,964)	(82,646)
Finance costs	**(1,782,233)**	**(659,141)**
Net finance costs recognised in profit or loss	**(1,775,124)**	**(600,155)**

10 Income tax expense

The Group’s applicable tax rate is the income tax rate of 20% for Armenian companies (2008: 10%).

’000 AMD	2009	2008
Current tax expense		
Current year	848,427	88,625
Under provided in prior years	-	10,176
	848,427	98,801
Deferred tax expense		
Origination and reversal of temporary differences	(99,311)	(677,266)
Change in unrecognised deductible temporary differences	99,311	199,162
	-	(478,104)
	848,427	**(379,303)**

Income tax recognised directly in other comprehensive income

’000 AMD	2009			2008		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Impairment loss of property, plant and equipment	**-**	**-**	**-**	**(5,143,914)**	**1,028,819**	**(4,115,095)**

Reconciliation of effective tax rate:

	2009		2008	
	’000 AMD	**%**	**’000 AMD**	**%**
Profit/(loss) before income tax	2,112,790	100.0	(3,873,531)	100.0
Income tax at applicable tax rate	422,558	20.0	(387,353)	10.0
Effect of deferred taxes reversed at lower rate	-	-	(169,740)	4.4
Non-deductible/(non-taxable) items	326,558	15.5	(31,548)	0.8
Change in unrecognised deferred tax assets	99,311	4.7	199,162	(5.1)
Under provided in prior years	-	-	10,176	(0.3)
	848,427	**40.2**	**(379,303)**	**9.8**

11 Property, plant and equipment

’000 AMD	Land and buildings	Plant and equipment	Motor vehicles	Fixtures and fittings	Construction in progress	Total
Cost/Revalued amount						
Balance at 1 January 2008	3,871,338	4,866,597	501,773	195,971	949,713	10,385,392
Additions	80,014	1,736,260	8,453	103,978	1,405,212	3,333,917
Disposals/write offs	(9,545)	(269,724)	(1,380)	(3,422)	(3,390)	(287,461)
Transfer to investment property	(236,384)	(49,551)	-	-	-	(285,935)
Transfers	158,305	10,389	-	3,905	(172,599)	-
Balance at 31 December 2008	3,863,728	6,293,971	508,846	300,432	2,178,936	13,145,913
Balance at 1 January 2009	3,863,728	6,293,971	508,846	300,432	2,178,936	13,145,913
Additions	137,434	672,809	14,023	62,465	1,908,107	2,794,838
Transfer from investment property	291,812	-	-	-	-	291,812
Disposals/write offs	-	(16,042)	-	(3,285)	-	(19,327)
Transfers	4,148	-	-	-	(4,148)	-
Balance at 31 December 2009	4,297,122	6,950,738	522,869	359,612	4,082,895	16,213,236
Depreciation and impairment losses						
Balance at 1 January 2008	97,045	303,491	46,008	30,648	-	477,192
Depreciation for the year	75,618	540,272	46,553	40,867	-	703,310
Transfer to investment property	(8,258)	(1,681)	-	-	-	(9,939)
Impairment loss	2,989,365	3,290,016	116,016	183,115	168,508	6,747,020
Disposals/write offs	(300)	(8,953)	-	-	-	(9,253)
Balance at 31 December 2008	3,153,470	4,123,145	208,577	254,630	168,508	7,908,330
Balance at 1 January 2009	3,153,470	4,123,145	208,577	254,630	168,508	7,908,330
Depreciation for the year	15,666	170,697	28,217	24,843	-	239,423
Transfer from investment property	15,815	-	-	-	-	15,815
Impairment	-	335,987	-	-	-	335,987
Disposals/write offs	-	(1,106)	-	(1,206)	-	(2,312)
Balance at 31 December 2009	3,184,951	4,628,723	236,794	278,267	168,508	8,497,243
Carrying amounts						
At 1 January 2008	3,774,293	4,563,106	455,765	165,323	949,713	9,908,200
At 31 December 2008	710,258	2,170,826	300,269	45,802	2,010,428	5,237,583
At 31 December 2009	1,112,171	2,322,015	286,075	81,345	3,914,387	7,715,993
Net book value had no revaluations taken place						
At 1 January 2008	489,594	1,750,537	175,105	73,762	949,713	3,438,711
At 31 December 2008	389,496	1,460,548	200,814	45,802	2,010,428	4,107,088
At 31 December 2009	507,978	1,868,494	188,835	81,345	3,914,387	6,561,039

(a) Depreciation

Depreciation expense of AMD 60,695 thousand (2008: AMD 437,396 thousand) has been charged to cost of goods sold, AMD 135,492 thousand (2008: AMD 129,470 thousand) to capital expenditure on property, plant and equipment and mining property and AMD 43,236 thousand (2008: AMD 136,444 thousand) to administrative expenses.

(b) Borrowing costs

Borrowing costs incurred by the Group of AMD 589,684 thousand are included in additions to property, plant and equipment in 2009 (2008: AMD 7,435 thousand). The average capitalization rate applied during 2009 to determine the amount of borrowing costs to be capitalized was 6.2% (2008: 7.6%).

(c) Impairment

At 31 December 2008 following the decline in the copper and molybdenum prices the Group determined that there was an indication of impairment of its property, plant and equipment. The Group consists of two cash generating units: Alaverdi melting plant and the Teghout mine.

Alaverdi melting plant

For the purposes of impairment testing as at 31 December 2008 for the Alaverdi melting plant, the recoverable amount of the Group's mining property relating to Alaverdi deposit and the property, plant and equipment relating to the Alaverdi deposit and Alaverdi melting plant was determined as at 31 December 2008 based on its value in use.

The value in use of property, plant and equipment was significantly lower than its carrying amount because the management of the Group expects only marginal profit from production and sale of blister copper in the foreseeable future. Even subsequent increase in copper prices did not result in a more than marginal profit due to significant adverse changes in the treatment charges, environmental fees and cost of gas. The management also does not plan to commence the Alaverdi mine exploitation in the foreseeable future due to uncertainties of ore reserves and the unfavourable commercial feasibility of the mine. Accordingly, the Group recognised impairment loss on its property, plant and equipment which was allocated to assets within the cash generating unit. However, the assets within the cash generating unit were not written down below their fair value less costs to sell determined on an individual basis.

As a result of the impairment testing as at 31 December 2008 the carrying amount of property, plant and equipment decreased by AMD 6,747,020 thousand. The revaluation decrease of AMD 4,115,095 thousand (net of the deferred tax of AMD 1,028,819 thousand) was recognised in equity reversing a previous revaluation increase, a revaluation decrease of AMD 1,603,106 thousand was recognised in profit or loss with an impairment loss amounting to AMD 256,513 thousand for property, plant and equipment written off during 2008.

In preparing these consolidated financial statements the management determined that there is no significant change in the assessed value in use as at 31 December 2009 compared to 31 December 2008.

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

Teghout mine

For Teghout mine impairment testing as at 31 December 2008 the Group estimated the recoverable amount of the property, plant and equipment and mining property relating to Teghout mine based on its value in use and the performed impairment test did not result in an impairment loss. The management has assessed that there are no impairment indications as at 31 December 2009 as a result of increase in copper and molybdenum prices in 2009.

12 Investment property

	'000 AMD
Cost	
At 1 January 2008	152,387
Additions	9,971
Transfer from property, plant and equipment	285,935
At 31 December 2008	448,293
Additions	17,500
Transfer to property, plant and equipment	(291,812)
At 31 December 2009	173,981
Depreciation	
At 1 January 2008	6,778
Charge for the year	2,926
Transfer from property, plant and equipment	9,939
At 31 December 2008	19,643
Charge for the year	8,743
Transfer to property, plant and equipment	(15,815)
At 31 December 2009	12,571
Net book value	
At 1 January 2008	145,609
At 31 December 2008	428,650
At 31 December 2009	161,410

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

13 Mining property

'000 AMD	Alaverdi deposit	Teghout deposit	Total
Cost			
At 1 January 2008	1,137,267	-	1,137,267
Additions/reclassifications	333,260	2,717,785	3,051,045
Disposals	(666)	-	(666)
At 31 December 2008	1,469,861	2,717,785	4,187,646
Additions	-	4,664	4,664
At 31 December 2009	1,469,861	2,722,449	4,192,310
Accumulated amortisation and impairment losses			
At 1 January 2008	192,955	-	192,955
Amortisation charge for the period	114,117	-	114,117
Impairment loss	1,162,789	-	1,162,789
At 31 December 2008	1,469,861	-	1,469,861
Amortisation charge for the period	-	-	-
At 31 December 2009	1,469,861	-	1,469,861
Net book value			
At 1 January 2008	944,312	-	944,312
At 31 December 2008	-	2,717,785	2,717,785
At 31 December 2009	**-**	**2,722,449**	**2,722,449**

14 Prepayments for non-current assets

'000 AMD	2009	2008
Prepayment for the purchase of a grinding mill	2,965,219	2,724,021
Other prepayments	186,337	159,764
	3,151,556	**2,883,785**

The prepayment by the Group for the purchase of a grinding mill for Teghout mine of AMD 2,965,219 thousand (2008: AMD 2,724,021 thousand) is included in prepayments for non-current assets, the final delivery of which is in 2011 per contract. As a result of the delay of financing from VTB Bank ojsc (see note 2(d)) in 2009 the Group began negotiations for agreeing the suspension of the terms of the performance of the purchase contract for the grinding mill until the Group obtains sufficient financing for continuing prepayments of the contract price per contract schedule. The purchase contract terms are such that the Group may not recover a significant part of the prepayment made in case it fails to continue payments as per the original contract terms, which depends on obtaining financing. As at 31 December 2009 no impairment is recognized for the prepayment as management expects to obtain financing from VTB Bank ojsc and continue performance of the purchase contract.

15 Inventories

'000 AMD	**2009**	**2008**
Raw materials and spare parts	3,382,424	2,241,756
Finished goods	1,165,138	716,313
Work-in-progress	1,717	30,338
Other inventory	196,477	48,194
	4,745,756	**3,036,601**

16 Trade and other receivables

'000 AMD	**2009**	**2008**
Non current		
VAT recoverable	657,888	472,012
	657,888	**472,012**
Current		
Trade receivables	3,253,915	545,233
VAT recoverable	1,917,963	1,356,577
Prepayments	102,574	-
Advances for provisionally priced purchases	-	2,814,097
Other receivables	33,064	79,420
	5,307,516	4,795,327
Impairment provision against VAT recoverable	(187,990)	(187,990)
	5,119,526	**4,607,337**

Analysis of movements in the impairment allowance for VAT recoverable

'000 AMD	**2009**	**2008**
At the beginning of the year	187,990	544,426
Recovery of written off allowance	174,904	-
Decrease in allowance	(174,904)	(356,436)
	187,990	**187,990**

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

17 Prepaid finance cost

In 2008 the Group paid an up-front fee to VTB Bank ojsc in accordance with the loan agreement signed in 2008 (see note 2(d)). The total amount paid has been recognized as prepaid finance cost.

18 Cash and cash equivalents

’000 AMD	**2009**	**2008**
Cash in hand	2,408	1,177
Current accounts and call deposits	1,119,462	18,143
Cash and cash equivalents in the statement of cash flows	**1,121,870**	**19,320**

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24.

19 Equity

(a) Share capital

The issued and fully paid share capital as at 31 December 2009 amounted to AMD 3,069,716 (31 December 2008: AMD 3,069,716) ordinary shares of AMD 1,000 each.

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

(b) Dividends

In accordance with Armenian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with the accounting regulations of the Republic of Armenia, except for restrictions on retained earnings as described in note 19(c). No dividends were declared and paid during 2009 and 2008. No dividends were proposed after 31 December 2009.

(c) Restrictions on retained earnings

According to legal requirements and the Company’s charter, the Company is required to create a reserve from its retained earnings for an amount equal to 15% of its share capital for the purpose of covering future losses. As at 31 December 2009 the Company had allocated AMD 460,457 thousand (2008: AMD 460,457 thousand) from its retained earnings as reserved retained earnings to comply with this requirement.

20 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 24.

'000 AMD	**2009**	**2008**
Non-current liabilities		
Secured bank loans	5,432,169	6,709,719
	5,432,169	**6,709,719**
Current liabilities		
Unsecured loan from a related party	4,401,490	777,981
Secured bank loans	2,834,175	2,300,475
Unsecured bond issues	-	500,000
	7,235,665	**3,578,456**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2009		**31 December 2008**	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan 1	USD	LIBOR+4%	2010	2,597,994	2,597,994	4,409,244	4,409,244
Secured bank loan 2	USD	LIBOR+7%	2012	5,668,350	5,668,350	4,600,950	4,600,950
Unsecured bond issues	AMD	10%	2009	-	-	500,000	500,000
Unsecured loan from a related party	AMD	5%	On demand	4,401,490	4,401,490	777,981	777,981
				12,667,834	**12,667,834**	**10,288,175**	**10,288,175**

The secured bank loan 2 was provided as a bridge loan to start the financing of the infrastructure works and the acquisition of equipment for Teghout mine, before Teghout cjsc will receive a loan facility from VTB Bank ojsc (see note 2(d)). If the loan facility from VTB Bank ojsc is not provided before December 2010, the secured bank loan 2 will become payable in 24 equal monthly instalments starting from December 2010. If during the loan repayment period a first utilisation of the loan facility from VTB Bank ojsc occurs, then the residual principal amount of the secured bank loan 2 shall be repaid in full at the date of the first utilisation.

The following guarantees are granted to VTB Bank ojsc for the secured bank loan 1 and 2:

- guarantee provided by "Vallex FM Establishment" the parent company of Armenian Copper Programme cjsc;
- surety provided by Teghout cjsc, 100% subsidiary of Armenian Copper programme cjsc;
- pledge of the amount on the Company's bank account, where the sales proceeds generated from sales of the blister copper are transferred;
- all rights and benefits held by the Company in accordance with the sales contract signed with the main customer, Aurubis AG on 8 December 2006.

21 Trade and other payables

'000 AMD	**2009**	**2008**
Trade payables	2,194,981	517,789
Taxes other than income tax payable	114,960	131,246
Other payables	87,675	127,575
Advances received	26,442	12,630
	2,424,058	**789,240**

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

22 Provisions

'000 AMD	**Forests restoration**
Balance at beginning of year	52,408
Provisions made during the year	34,073
Provisions used during the year	(38,195)
Balance at end of year	**48,286**
Non-current	-
Current	48,286
	48,286

In 2008 the Group reached an agreement with the Government of the Republic of Armenia and a plan agreed with a time schedule for planting trees in other areas to replace those to be cut during Teghout mine development and plant construction. In estimating the Group's liability at the reporting date the Group has considered the actual area cut, the ratio of the cut area to the area to be planted agreed with the Government, the timing of the activities agreed and the approximate cost to the Group. In estimating the cost of a unit of area to plant the Group has considered actual agreement prices concluded in 2009 with contractors for planting trees.

23 Deferred tax assets and liabilities

(a) Deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
'000 AMD	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Property, plant and equipment and investment property	21,884	42,882	(20,242)	(41,548)	1,642	1,334
Mining property	207,813	207,813	-	-	207,813	207,813
Intangible assets	14,000	14,000	-	-	14,000	14,000
Other non-current assets	7,836	7,836	-	-	7,836	7,836
Inventories	90,855	-	-	(70,123)	90,855	(70,123)
Trade and other receivables	138,111	167,496	(105,947)	-	32,164	167,496
Trade and other payables	68,300	-	-	-	68,300	-
Tax loss carry-forwards	5,057	-	-	-	5,057	-
Non-recognised tax assets	(427,667)	(328,356)	-	-	(427,667)	(328,356)
Tax assets/(liabilities)	126,189	111,671	(126,189)	(111,671)	-	-
Set off of tax	(126,189)	(111,671)	126,189	111,671	-	-
Net tax assets/(liabilities)	-	-	-	-	-	-

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

(b) Movement in temporary differences during the year

'000 AMD	**1 January 2008**	**Recognised in income**	**Recognised in equity**	**31 December 2008**	**Recognised in income**	**31 December 2009**
Property, plant and equipment and investment property	(1,413,286)	385,801	1,028,819	1,334	308	1,642
Mining property	37,991	169,822	-	207,813	-	207,813
Intangible assets	4,629	9,371	-	14,000	-	14,000
Other non-current assets	7,836	-	-	7,836	-	7,836
Inventories	68,506	(138,629)	-	(70,123)	160,978	90,855
Trade and other receivables	(36,247)	203,743	-	167,496	(135,332)	32,164
Trade and other payables	(176,352)	176,352	-	-	68,300	68,300
Tax loss carry-forwards	-	-	-	-	5,057	5,057
Non-recognised tax assets	-	(328,356)	-	(328,356)	(99,311)	(427,667)
	(1,506,923)	**478,104**	**1,028,819**	**-**	**-**	-

24 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group has developed a Risk management policy, the objective of which is to ensure viability and maximum effectiveness of the Group's activities during a long period of time. The Group's risk management policy is established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade and other receivables

Individual approaches are used to manage possible risks arising from receivables generated from relations between the Group and customers. The Group transacts with the main customer of its production – blister copper, which is one of the largest metallurgical companies in the European market. 95% of trade receivables as at 31 December 2009 are due from this customer (2008: 77%). During the recent four years more than 90% of the annual production is sold to this customer. In relations with this trade partner the Group receives within 4-5 days after dispatch an early payment equal to 95% of the value of the dispatched production. The remaining 5% of the value of the dispatched production is paid to the Group immediately after delivery. In case the Group decides to sell its production to other customers, as a rule the delivery is made against a prepayment equal to the total value of the delivered production. Consequently, no significant risks arise with respect to receivables from the sale of main production.

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

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

(ii) Borrowings given

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

(iii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
'000 AMD	**2009**	**2008**
Borrowings given	59,952	49,769
Trade receivables	3,253,915	545,233
Advances for provisionally priced purchases	-	2,814,097
Other receivables	33,064	79,420
Cash and cash equivalents	1,119,462	18,143
	4,466,393	**3,506,662**

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

	Carrying amount	
'000 AMD	**2009**	**2008**
Euro-zone countries	3,105,518	456,539
Domestic	148,397	88,694
	3,253,915	**545,233**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
'000 AMD	**2009**	**2008**
Wholesale customers	3,105,518	456,539
End-user customer	148,397	88,694
	3,253,915	**545,233**

All the financial assets of the Group are not impaired or past due. Cash and cash equivalents are held with the top 5 Armenian banks. Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of the Group's financial assets.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

For this purpose the Group makes short-term forecasts for cash flows based on financial needs conditioned by the nature of operating and investing activities. As a rule these needs are envisaged for an annual and monthly basis. In order to manage its financial needs the Group signs agreements on the provision of intra-group borrowings allowing to finance short-term financial needs of the Group without facing timing difficulties.

In addition to the practice of intra-group borrowings, the Group also uses short-term bank financing to satisfy its liquidity needs.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2009

’000 AMD	On demand	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	Total	Carrying amount
Financial liabilities								
Loans and borrowings:								
Secured bank loan 1	-	1,459,556	1,193,397	-	-	-	2,652,953	2,597,994
Secured bank loan 2	-	204,937	441,119	3,133,042	2,691,923	-	6,471,021	5,668,350
Related parties	4,401,490	-	-	-	-	-	4,401,490	4,401,490
Trade and other payables	-	2,282,656	-	-	-	-	2,282,656	2,282,656
	4,401,490	**3,947,149**	**1,634,516**	**3,133,042**	**2,691,923**	**-**	**15,808,120**	**14,950,490**

2008

’000 AMD	On demand	0-6 months	6-12 months	1-2 years	2-3 years	3-4 years	Total	Carrying amount
Financial liabilities								
Loans and borrowings:								
Secured bank loan 1	-	1,237,409	1,211,896	2,155,544	-	-	4,604,849	4,409,244
Secured bank loan 2	-	171,069	171,069	533,844	2,549,951	2,187,175	5,613,108	4,600,950
Related parties	777,981	-	-	-	-	-	777,981	777,981
Unsecured bond issues	-	511,806	-	-	-	-	511,806	500,000
Trade and other payables	-	645,364	-	-	-	-	645,364	645,364
	777,981	**2,565,648**	**1,382,965**	**2,689,388**	**2,549,951**	**2,187,175**	**12,153,108**	**10,933,539**

In the above table the repayments of the secured bank loan 2 are presented based on contractual terms. However, the loan becomes payable on demand in case the Group receives the loan facility from VTB Bank ojsc described in note 2(d).

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

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

If possible, payments for operating purchases are made in the currency in which income from the Group's finished goods is received (these rights are specified in the contracts). This particularly refers to payments made for main raw material, the purchase costs of which exceed 90% of the Group's expenses. The other approach applied for mitigation of currency risk envisages receipt of loans in the currency in which the realisation of the Group's production is made (currently USD).

Exposure to currency risk

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

'000 AMD	**USD-denominated 2009**	**USD-denominated 2008**
Current assets		
Cash and cash equivalents	707,197	12,852
Trade and other receivables	3,157,871	3,270,636
Current liabilities		
Trade and other payables	(1,951,272)	(48,841)
Loans and borrowings	(2,834,175)	(2,300,475)
Non-current liabilities		
Loans and borrowings	(5,432,169)	(6,709,719)
	(6,352,548)	**(5,775,547)**

The following significant exchange rates applied during the year:

	1 USD equals as of year end 2009	**1 USD equals as of year end 2008**
AMD	377.89	306.73

Sensitivity analysis

A strengthening of the AMD against USD at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

'000 AMD	**Equity**	**Profit or loss**
2009		
USD (10% strengthening)	635,255	635,255
2008		
USD (20% strengthening)	1,155,109	1,155,109

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

(ii) Interest rate risk

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

Profile

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

	Carrying amount	
'000 AMD	**2009**	**2008**
Fixed rate instruments		
Financial assets	59,952	49,769
Financial liabilities	(4,401,490)	(1,277,981)
	(4,341,538)	**(1,228,212)**
Variable rate instruments		
Financial liabilities	**(8,266,344)**	**(9,010,194)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value. Therefore a change in interest rates at the reporting date would not affect profit or loss and equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit or loss		Equity	
'000 AMD	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2009				
Variable rate instruments	(66,131)	66,131	(66,131)	66,131
2008				
Variable rate instruments	(72,082)	72,082	(72,082)	72,082

(e) Commodity price risk

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

Prices for the Group's production are determined based on prices ruling in the international market at any fixed date. The time interval between the purchase of the main raw material and sales of finished goods may be 3-4 months. In order to manage these risks the Group determines the quotation period for its production sales and raw material purchases in such a manner as to overlap the point of sales recognition with the quotation period for purchased concentrate. By applying this method the Group partly neutralizes price risks.

Sensitivity analysis

An increase of 20% in forward prices of copper and gold at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

'000 AMD	**Equity**	**Profit or loss**
2009		
Sales	1,009,183	1,009,183
Cost of sales	(989,150)	(989,150)
2008		
Sales	267,914	267,914
Cost of sales	(423,324)	(423,324)

A 20% decrease in forward prices of copper and gold at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(f) Fair values versus carrying amounts

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The basis for determining fair values is disclosed in note 4.

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

	2009	2008
Loans and borrowings	4.2%-7.2%	7.1%-10.1%

(g) Fair value hierarchy

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

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

'000 AMD	Level 1	Level 2	Level 3	Total
31 December 2009				
Derivatives embedded in sales contracts (asset)	-	390,437	-	390,437
Derivatives embedded in purchase contracts (liability)	-	(341,498)	-	(341,498)
31 December 2008				
Derivatives embedded in sales contracts (liability)	-	(122,132)	-	(122,132)
Derivatives embedded in purchase contracts (asset)	-	881,587	-	881,587

(h) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants.

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

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

'000 AMD	2009	2008
Total liabilities	**15,841,466**	**11,270,625**
Less: cash and cash equivalents	(1,121,870)	(19,320)
Net debt	14,719,596	11,251,305
Total equity	**9,841,701**	**8,577,338**
Debt to capital ratio at 31 December	1.50	1.31

25 Commitments

(a) Purchase commitments

The Group signed a contract and made a prepayment (see note 14) for the purchase of a grinding mill in 2008. The total price of the contract is USD 47,000 thousand. The prepayment made by the Company is USD 9,674 thousand and the purchase commitment at 31 December 2009 is USD 37,326 thousand (31 December 2008: USD 37,976 thousand). The payment is to be made and the mill is to be supplied fully by July 2011.

(b) Commitments related to mine exploitation

In October 2007 the Group signed a Licensing Agreement with the Ministry of Trade and Economic Development and the Ministry of Nature Protection (the Authorities). In accordance with the Licensing Agreement the Authorities transfer to the Group the right to control and use Teghout copper-molybdenum deposit's reserves of 105 million tons (7 million tons per year) till 2026.

In accordance with the Licensing Agreement and environmental programs agreed with the Government of the Republic of Armenia the Company is committed to:

- complete preparation works and perform investments for the amount of AMD 35,000,000 thousand for Teghout deposit exploitation by July 2011 and start the exploitation of the deposit afterwards;
- starting from 2008 to pay an annual fee of AMD 2,953 thousand to the environmental fund;
- plant forests instead of the trees being cut in the mine and future plant area (see note 22).

26 Contingencies

(a) Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Environmental matters

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

27 Operational risks

(a) Mines

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group's control and could impact the Group's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions and adverse claims to water rights, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of or failure to receive necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) uncertainty of exploration and development, (x) delays in transportation, (xi) labour disputes, (xii) inability to obtain satisfactory insurance coverage, (xiii) unavailability of materials and equipment, (xiv) the failure of equipment or processes to operate in accordance with specifications or expectations, (xv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xvi) the results of financing efforts and financial market conditions.

(b) Copper price volatility

The Group's financial performance is dependent on the price of copper, which is affected by many factors beyond the Group's control. Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE). The Group's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical. Copper prices have declined significantly from their recent historically high levels. During the three years ended 31 December 2009, LME daily settlement prices ranged from USD 2,778 to 8,995 per ton of copper. After averaging USD 7,959 per ton for the first nine months of 2008, London Metal Exchange (LME) spot copper prices declined to a four-year low of USD 2,778 per ton in December 2008. Starting from March 2009 the copper prices began to rise again and the LME spot copper price closed at USD 6,630 per ton on 12 July 2010.

(c) Gold price volatility

The Group's financial performance is also dependent on the price of gold, which is affected by many factors beyond the Group's control. Gold is a commodity traded on the London Bullion Market, Tokyo Commodity Exchange, the New York Commodity Exchange (COMEX) and Zurich Gold Pool. The price of gold is influenced significantly by numerous factors, including (i) the worldwide balance of gold demand and supply, (ii) rates of global economic growth, trends in jewellery production, all of which correlate with demand for gold, (iii) economic growth and political conditions in India and other Asian countries, which became the largest consumer of gold in the world, and other major developing economies, (iv) speculative investment positions in gold and gold futures, and (v) currency exchange fluctuations, including the relative strength of the USD. The gold market is volatile. During the three years ended 31 December 2009, London Bullion Market Association daily settlement prices ranged from USD 608.3 to 1,218.25 per ounce of gold.

(d) Molybdenum price volatility

The Group's future financial performance is also significantly dependent on the price of molybdenum. Molybdenum is characterized by volatile, cyclical prices, even more so than copper. Molybdenum prices are influenced by numerous factors, including (i) the worldwide balance of molybdenum demand and supply, (ii) rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel, (iii) the volume of molybdenum produced as a by-product of copper production, (iv) inventory levels, (v) currency exchange fluctuations, including the relative strength of the USD and (vi) production costs of U.S. and foreign competitors.

Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices.

28 Related party transactions

(a) Control relationships

The Group's Parent is Vallex F.M. Establishment, incorporated in Liechtenstein.

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

No publicly available financial statements are produced by the Group's parent company, ultimate controlling party or any other intermediate controlling party.

(b) Management remuneration

Key management received the following remuneration during the year:

'000 AMD	**2009**	**2008**
Directors and Senior Management	**26,802**	**58,423**

(c) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue and other income

'000 AMD	Transaction value 2009	Transaction value 2008	Outstanding balance 2009	Outstanding balance 2008
Sale of goods				
Entities under common control	189,017	107,074	(74,756)	7,932
Services provided				
Entities under common control	1,138	23,522	137	23,064
Interest income				
Entities under common control	1,573	24,925	-	-
Other income				
Entities under common control	1,992	1,731	-	-

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

(ii) Purchases and expenses

'000 AMD	Transaction value 2009	Transaction value 2008	Outstanding balance 2009	Outstanding balance 2008
Purchase of goods				
Entities under common control	14,046,990	9,458,460	1,640,451	(454,108)
Services received				
Entities under common control	209,540	419,155	(18,554)	24,323
Interest expense				
Entities under common control	52,864	14,762	-	-
Other expense				
Entities under common control	64,514	-	-	-

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

(iii) Loans

'000 AMD	Amount loaned 2009	Amount loaned 2008	Outstanding balance 2009	Outstanding balance 2008
Loans received				
Entities under common control	5,538,445	2,248,343	4,401,490	777,981
Loans given				
Entities under common control	23,500	1,321,000	59,952	49,769

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

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

29 Significant subsidiaries

		2009	2008
	Country of incorporation	**Ownership/voting**	**Ownership/voting**
Teghout cjsc	Republic of Armenia	100%	100%