Armenian Copper Programme cjsc

Consolidated Financial Statements
for the year ended 31 December 2006

Contents

Armenian Copper Programme cjsc

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Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Armenian Copper Programme cjsc (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

KPMG Armenia
31 August 2007

Tigran Gasparyan
Manager, Audit Department

	Note	2006 '000 AMD	2005 '000 AMD
Revenues	4	31,087,667	22,505,607
Cost of sales		(26,405,776)	(21,092,023)
Gross profit		4,681,891	1,413,584
Other income	5	44,941	14,641
Distribution expenses	6	(324,277)	(293,857)
Administrative expenses	7	(1,379,628)	(774,024)
Other expenses		(371,007)	(117,476)
Impairment losses	8	(26,597)	(345,372)
Profit/(loss) from operations		2,625,323	(102,504)
Net financial income/(expenses)	9	413,099	(36,566)
Profit/(loss) before taxation		3,038,422	(139,070)
Income tax (expense)/credit	10	(309,819)	4,849
Profit/(loss) for the year		2,728,603	(134,221)

The consolidated financial statements were approved by the members of the Board on 31 August 2007 and were signed on their behalf by:

Gagik Arzumanyan
Executive Director

Tigran Khachatryan
Finance Director

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 39.

	Note	2006 '000 AMD	2005 '000 AMD Restated
Assets			
Non-current assets			
Property, plant and equipment	11	9,428,955	4,834,421
Investment property	12	148,478	150,517
Intangible assets	13	46,742	34,061
Mining property	14	664,357	-
Exploration and evaluation assets	15	1,492,207	553,280
Other investments	16	35,647	25,647
		11,816,386	**5,597,926**
Current assets			
Inventories	17	2,669,420	2,795,852
Trade and other receivables	18	1,837,718	4,146,583
Income tax prepayments		176,808	61,274
Cash and cash equivalents	19	135,013	123,388
		4,818,959	**7,127,097**
Total assets		**16,635,345**	**12,725,023**
Shareholders' equity and liabilities			
Capital and reserves			
Share capital	20	3,069,716	3,069,716
Revaluation reserve		6,035,723	2,556,206
Accumulated profit		3,484,724	666,047
		12,590,163	**6,291,969**
Non-current liabilities			
Deferred tax liability	21	914,421	324,648
Loans and borrowings	22	146,971	-
Deferred income	23	78,973	78,973
		1,140,365	**403,621**
Current liabilities			
Loans and borrowings	22	1,652,735	1,593,826
Trade and other payables	24	1,252,082	4,435,607
		2,904,817	**6,029,433**
Total shareholders' equity and liabilities		**16,635,345**	**12,725,023**

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 39.

	2006 '000 AMD	2005 '000 AMD
OPERATING ACTIVITIES		
Net profit/(loss) before taxation	**3,038,422**	**(139,070)**
Adjustment for:		
Depreciation of property, plant and equipment	192,940	163,381
Depreciation of investment property	2,039	-
Amortisation of intangible assets	1,258	1,258
(Gain)/loss on disposal of property, plant and equipment	(2,281)	5,395
Loss on revaluation of property, plant and equipment	268,986	-
Impairment provision	26,597	345,372
Net foreign exchange gain	(768,985)	(77,656)
Interest expenses	355,886	114,222
Operating profit before changes in working capital	**3,114,862**	**412,902**
Decrease/(increase) in trade and other receivables and other assets	1,321,723	(2,745,602)
Decrease/(increase) in inventories	72,805	(1,027,171)
(Decrease)/increase in trade and other payables	(2,406,354)	3,492,956
Cash flows from operations before interest and income taxes paid	**2,103,036**	**133,085**
Interest paid	(357,620)	(107,352)
Income taxes paid	(252,450)	(377,579)
Cash flow from/(utilised by) operating activities	**1,492,966**	**(351,846)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(978,554)	(251,100)
Investment in mining property	(1,198,663)	(508,949)
Purchase of intangible assets	(13,939)	(32,800)
Proceeds from sale of property, plant and equipment	32,645	12,355
Acquisition of other investments	(10,000)	-
Cash flows utilised by investing activities	**(2,168,511)**	**(780,494)**
FINANCING ACTIVITIES		
Proceeds from borrowings	593,070	522,449
Cash flows from financing activities	**593,070**	**522,449**
Net decrease in cash and cash equivalents during the year	(82,475)	(609,891)
Effect of changes in exchange rates on cash and cash equivalents	94,100	60,070
Cash and cash equivalents at the beginning of the year	123,388	673,209
Cash and cash equivalents at the end of the year (note 19)	**135,013**	**123,388**

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 39.

’000 AMD	**Share capital**	**Revaluation reserve**	**Accumulated profit**	**Total**
Balance at 1 January 2005	3,069,716	2,635,304	721,170	6,426,190
Net loss for the year	-	-	(134,221)	(134,221)
Realisation of property, plant and equipment revaluation reserve	-	(79,098)	79,098	-
Balance at 31 December 2005	**3,069,716**	**2,556,206**	**666,047**	**6,291,969**
Balance at 1 January 2006	3,069,716	2,556,206	666,047	6,291,969
Net profit for the year	-	-	2,728,603	2,728,603
Revaluation of property, plant and equipment, net of deferred tax of AMD 396,621 thousand	-	3,569,591	-	3,569,591
Realisation of property, plant and equipment revaluation reserve	-	(90,074)	90,074	-
Balance at 31 December 2006	**3,069,716**	**6,035,723**	**3,484,724**	**12,590,163**

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 39.

1 Background

(a) 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 Group's registered office is 19 Khanjyan Street, Yerevan, Republic of Armenia.

The Group's principal activity is the production and sale of blister copper. In addition, the Group is also involved in the exploration and development of mining properties in Armenia. All production of the Group is sold outside of Armenia.

The Group's authorised share capital is AMD 40 million. As of 31 December 2006 and 2005 the respective shareholdings are as follows:

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

(b) 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. The accompanying 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.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for property, plant and equipment that are stated at revalued amounts and investments classified as available for sale that are stated at fair value (refer to note 3c).

(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. AMD has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 11 – property, plant and equipment;
- Note 14 – mining property;
- Note 15 – exploration and evaluation assets;
- Note 16 – other investments;
- Note 17 – inventories;
- Note 18 – trade and other receivables – VAT recoverable;
- Note 27 – contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3 (a) to 3 (t). These accounting policies have been consistently applied. As explained in note 23, the Group has restated the comparative figures for 2005 in relation to Government grant received in 2005. The restatement has no impact on the Group's profit for the year or equity.

The Group has adopted IFRS 6 *Exploration for and Evaluation of Mineral Resources* on 1 January 2006. The adoption of the standard did not have a material impact on the financial statements, except that expenditures capitalised on Alaverdy deposit in for the comparative period enden 31 December 2005 were reclassified, which resulted in cost and accumulated amortisation and impairment losses of AMD 509,726 thousand being reclassified from exploration and evaluation assets to mining property.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

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. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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.

Accounting for finance income and expenses is discussed in note 3 (q).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(ii) Derivative financial instruments

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.

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

(d) Share capital

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent cost

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 costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Revaluation

A revaluation surplus on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation deficit recognised in the income statement, in which case it is recognised in the income statement. A revaluation deficit on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation surplus recognised directly in equity, in which case it is recognised directly in equity. When a revalued asset is sold, the amount included in other reserves 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 surplus to retained earnings.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

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

(v) Construction in progress

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

(f) Investment property

(i) Investment property

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

(ii) Depreciation

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

(g) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by the Group 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.

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

- Accounting software 2 years
- Other intangible assets 3-10 years

(h) 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 balance sheet.

(i) 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.

(j) Mining property

Mining property is stated at cost less accumulated depreciation.

(i) Depreciation

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.

(k) Inventories

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

(l) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(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 goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. 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 during the period 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

(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.

(o) Revenue

(i) Goods sold

Revenue is recognised when 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. Transfers of risks and rewards occur upon loading the goods onto the relevant carrier at the Group's warehouse.

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 quotational period. Typically, the future quotational 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 balance sheet 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 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) Cost of sales

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

(q) 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 lease adjustment is confirmed.

(r) Financing income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group’s right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(s) Income tax expense

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

Current tax is the expected tax payable on the taxable income 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 using the balance sheet method, providing for 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 goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

(t) 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 2006, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

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

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

- IAS 23 *Borrowing Costs*, eliminates the option of immediately expensing borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. IAS 23 becomes mandatory for annual periods on or after 1 January 2009.

4 Revenues

	2006 '000 AMD	2005 '000 AMD
Revenues from sale of products	30,876,990	22,380,380
Revenues from rendering of services	84,133	112,234
Other revenue	126,544	12,993
	31,087,667	22,505,607

At 31 December 2006 the Company had outstanding provisionally priced sales of AMD 4,470,867 thousand consisting of 1,421 dry metric tonnes of blister copper, which had a fair value of approximately AMD 4,314,214 thousand including the embedded derivative.

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

5 Other income

	2006 '000 AMD	2005 '000 AMD
Operating lease income	18,266	18,605
Gain/(loss) on disposal of property, plant and equipment	2,281	(5,395)
Other income	24,394	1,431
	44,941	14,641

6 Distribution expenses

	2006 '000 AMD	2005 '000 AMD
Transportation expenses	282,042	260,182
Customs duties on products	14,891	6,167
Marketing and advertisement expenses	10,574	-
Other distribution expenses	16,770	27,508
	324,277	293,857

7 Administrative expenses

	2006 '000 AMD	2005 '000 AMD
Taxes other than income tax	361,204	122,487
Payroll expense	347,696	298,237
Maintenance	98,016	51,531
Bank charges	97,605	20,862
Depreciation	62,677	50,090
Utilities and communication expenses	55,470	35,235
Fines and penalties	36,876	2,355
Representation expenses and business trips	31,227	29,779
Audit and consulting fees	28,527	7,874
Amortisation of intangible assets	1,258	1,258
Others	259,072	154,316
	1,379,628	774,024

The average number of employees during the year ended 31 December 2006 was 874 (2005: 729). Total payroll expenses (direct production and administrative) during the year ended 31 December 2006 was AMD 1,074,797 thousand (2005: AMD 847,406 thousand). Included in total payroll expense are mandatory social security payments of AMD 43,762 thousand (2005: AMD 33,215 thousand).

8 Impairment losses

	2006 '000 AMD	2005 '000 AMD
Reversal of mining property impairment (note 14)	(404,621)	-
Reversal of property plant and equipment impairment (note 11)	(203,066)	-
VAT receivable (note 18)	544,426	-
Inventories (note 17)	89,858	345,372
	26,597	345,372

9 Net financial (income)/expenses

	2006 '000 AMD	2005 '000 AMD
Interest expense	355,886	114,222
Net foreign exchange gain	(768,985)	(77,656)
	(413,099)	36,566

10 Income tax expense/(credit)

The Company is liable for income tax at 50% of the ordinary tax rate until the end of the financial year ending 31 December 2008. The ordinary tax rate as at 31 December 2006 was 20% (2005: 20%).

	2006 '000 AMD	2005 '000 AMD
Current tax expense		
Current year	119,570	167,529
Prior period adjustment	(2,903)	4,010
	116,667	171,539
Deferred tax expense		
Origination and reversal of temporary differences	193,152	(176,388)
	309,819	(4,849)

Reconciliation of effective tax rate

	2006 '000 AMD	%	2005 '000 AMD	%
Profit/(loss) before tax	3,038,422		(139,070)	
Expected tax charge at applicable tax rates	303,842	10.0	(13,907)	10.0
Non-deductible/non-taxable items	8,880	0.3	5,048	(3.6)
Prior period adjustment	(2,903)	(0.1)	4,010	(2.9)
	309,819	10.2	(4,849)	3.5

11 Property, plant and equipment

'000 AMD	**Land and buildings Restated**	**Leasehold improvements**	**Plant and equipment**	**Motor vehicles**	**Fixtures and fittings**	**Property, plant and equipment not in use**	**Construction in progress**	**Total**
Cost/Revalued amount								
At 1 January 2005	2,502,594	70,216	1,645,591	40,883	133,324	1,063,441	-	5,456,049
Additions	70,083	-	30,091	9,596	4,693	206,720	-	321,183
Disposals	-	-	(15,409)	-	(38)	(6,167)	-	(21,614)
Transfers	(102,347)	-	119,775	33,856	25,841	(220,622)	-	(143,497)
At 31 December 2005	2,470,330	70,216	1,780,048	84,335	163,820	1,043,372	-	5,612,121
Additions	146,138	998	256,616	92,056	11,253	277,011	169,707	953,779
Disposals	(2,223)	-	(28,611)	(2,110)	(2,979)	(3,645)	-	(39,568)
Revaluation	924,269	-	1,382,483	278,931	10,929	365,779	-	2,962,391
Transfers	(15,578)	-	151,195	2,204	(36,264)	(138,114)	-	(36,557)
At 31 December 2006	3,522,936	71,214	3,541,731	455,416	146,759	1,544,403	169,707	9,452,166
Depreciation and impairment losses								
At 1 January 2005	150,027	16,164	162,418	9,023	60,931	221,490	-	620,053
Charge for the year	40,233	3,511	92,131	5,357	22,149	-	-	163,381
Disposals	-	-	(3,753)	-	(28)	(83)	-	(3,864)
Transfers	(1,892)	-	(2,316)	(580)	9,349	(6,431)	-	(1,870)
At 31 December 2005	188,368	19,675	248,480	13,800	92,401	214,976	-	777,700
Charge for the year	37,323	3,536	115,303	12,402	24,376	-	-	192,940
Impairment losses - reversal	-	-	-	-	-	(203,066)	-	(203,066)
Disposals	(219)	-	(5,079)	(822)	(2,432)	(652)	-	(9,204)
Revaluation	(207,945)	-	(373,215)	(25,318)	(97,248)	(31,109)	-	(734,835)
Transfers	(17,527)	-	14,511	(62)	(17,097)	19,851	-	(324)
At 31 December 2006	-	23,211	-	-	-	-	-	23,211
Net book value								
At 1 January 2005	2,352,567	54,052	1,483,173	31,860	72,393	841,951	-	4,835,996
At 31 December 2005	2,281,962	50,541	1,531,568	70,535	71,419	828,396	-	4,834,421
At 31 December 2006	3,522,936	48,003	3,541,731	455,416	146,759	1,544,403	169,707	9,428,955
Net book value had no revaluation taken place								
At 1 January 2005	682,664	54,052	550,381	57,845	24,292	790,806	-	2,160,040
At 31 December 2005	689,446	50,541	613,046	65,631	37,899	821,652	-	2,278,215
At 31 December 2006	759,668	48,003	1,029,847	182,395	38,494	1,026,056	169,707	3,254,170

The revaluation of property, plant and equipment was performed as of 31 December 2006 by Artin Enterprise cjsc, a licensed valuer. Movable property, plant and equipment and land were revalued based on market values, immovable property, plant and equipment were revalued applying 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.

The depreciated replacement cost was estimated based on internal sources and analysis of the Armenian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Republic of Armenia and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values.

As a result of revaluation carrying amount of property, plant and equipment increased by AMD 3,697,226 thousand. Net revaluation increase of AMD 3,569,591 thousand (net of deferred tax effect of AMD 396,621 thousand) recognised in equity and revaluation decrease of AMD 268,986 thousand recognised in the income statement.

All immovable property is pledged as a collateral to secure bank loans. All movable property with a value in excess of AMD equivalent of Euro 10,000 is pledged as a collateral to secure bank loans (note 22).

Transfer to investment property

During 2005 land and buildings with a net book value AMD 141,627 thousand were transferred to Investment property (note 12).

12 Investment property

	Restated '000 AMD
Cost	
At 1 January 2005	-
Additions	8,890
Transfers	143,497
At 31 December 2005	152,387
At 31 December 2006	152,387
Depreciation	
At 1 January 2005	-
Transfers	1,870
At 31 December 2005	1,870
Charge for the year	2,039
At 31 December 2006	3,909
Net book value	
At 31 December 2005	150,517
At 31 December 2006	148,478

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

13 Intangible assets

	'000 AMD
Cost	
At 1 January 2005	3,777
Additions	32,800
At 31 December 2005	36,577
Additions	13,939
At 31 December 2006	50,516
Amortisation	
At 1 January 2005	1,258
Charge for the year	1,258
At 31 December 2005	2,516
Charge for the year	1,258
At 31 December 2006	3,774
Net book value	
At 1 January 2005	2,519
At 31 December 2005	34,061
At 31 December 2006	46,742

14 Mining property

	'000 AMD
Cost	
At 1 January 2005	482,295
Additions	27,431
At 31 December 2005	509,726
Additions	259,736
At 31 December 2006	769,462
Accumulated amortisation and impairment losses	
At 1 January 2005	482,295
Impairment losses	27,431
At 31 December 2005	509,726
Reversal of impairment loss	(404,621)
At 31 December 2006	105,105
Net book value	
At 1 January 2005	-
At 31 December 2005	-
At 31 December 2006	664,357

Mining property as of 31 December 2006 relates to Alaverdy deposit. Due to increase in copper world prices in 2006 exploitation of Alaverdy deposit has become economically feasible and extraction of ore from the deposit restarted in February 2007. As a result, previously recognised impairment losses have been reversed.

15 Exploration and evaluation assets

	'000 AMD
Cost	
At 1 January 2005	44,331
Additions	508,949
At 31 December 2005	553,280
Additions	938,927
At 31 December 2006	1,492,207

Exploration and evaluation assets as of 31 December 2006 represent expenditures incurred on the Teghout deposit in Northern Armenia. Teghout deposit is the second largest copper-molybdenum deposit in Armenia.

There are 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 and adversely affect the Company's ore reserve estimates. The Company uses its ore reserve estimates in evaluating asset impairments.

16 Other investments

	2006 '000 AMD	2005 '000 AMD
Available-for-sale		
Equity instruments - unquoted		
Manes ojsc	38,555	38,555
Mining and Metallurgy Institute cjsc	26,269	26,269
Gugarqi GEO ojsc	10,000	-
Vallex IT cjsc	5	5
	74,829	64,829
Provision for impairment	(39,182)	(39,182)
	35,647	25,647

Unlisted equity investments

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

Name	Country of incorporation	Main activity	% controlled 2006	% controlled 2005	2006 Carrying value '000 AMD	2005 Carrying value '000 AMD
Manes ojsc	Republic of Armenia	Smelting	16	16	-	-
Mining and Metallurgy Institute cjsc	Republic of Armenia	Development of mining technologies	15	15	26,269	26,269
Gugarqi GEO ojsc	Republic of Armenia	Provision of property for renting	100	-	10,000	-
Vallex IT cjsc	Republic of Armenia	Selling of computers	1	1	5	5

Investment in Gugarqi GEO ojsc was not accounted for using the equity purchase method as the effect on the Group's consolidated financial statements would be immaterial.

17 Inventories

	2006	2005
	'000 AMD	'000 AMD
Raw materials	2,605,807	2,574,346
Finished goods	344,309	470,259
Work-in-progress	118,394	69,288
Other inventory	36,140	27,331
	3,104,650	3,141,224
Provision against obsolete/slow moving inventories	(435,230)	(345,372)
	2,669,420	2,795,852

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

All raw materials (copper concentrate and copper scrap) and finished goods (blister copper) are pledged as collateral to secure bank loans (note 22).

18 Trade and other receivables

	2006	2005
	'000 AMD	'000 AMD
VAT recoverable	1,507,636	1,979,750
Trade receivables	607,042	1,183,029
Prepayments	249,137	950,794
Other receivables	18,329	33,010
	2,382,144	4,146,583
Impairment provision against VAT recoverable	(544,426)	-
	1,837,718	4,146,583

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

	2006	2005
	'000 AMD	'000 AMD
At the beginning of the year	-	-
Net increase in provisions	544,426	-
At the end of the year	544,426	-

82% of trade receivables (2005: 80%) are due from one customer.

19 Cash and cash equivalents

	2006	2005
	'000 AMD	'000 AMD
Cash in hand	2,406	12,256
Current account	132,607	111,132
	135,013	123,388

As of 31 December 2006 monetary assets available in the account designated as the revenue account amounting to AMD 1,847 thousand (2005: AMD 25 thousand) and in the disbursement account amounting to AMD 5 thousand (2005: AMD 6 thousand) and all monetary assets deposited into these accounts in the future are pledged as collateral to secure bank loans (note 22).

20 Equity

Share capital

The authorised share capital as at 31 December 2006 amounted to 40,000,000 (2005: 40,000,000) ordinary shares of AMD 1 thousand each. The issued and fully paid share capital as at 31 December 2006 amounted to 3,069,716 (2005: 3,069,716) ordinary shares of AMD 1,000 each.

All issued ordinary shares are pledged as collateral by the shareholders to secure bank loans (see note 22).

Dividends

No dividends were declared and paid during 2006 and 2005. No dividends were proposed after 31 December 2006.

21 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

’000 AMD	**Assets**		**Liabilities**		**Net**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Property, plant and equipment	-	-	853,620	417,671	853,620	417,671
Deferred mining expenses	(6,138)	-	-	45,222	(6,138)	45,222
Inventories	(8,986)	(60,547)	-	-	(8,986)	(60,547)
Trade and other receivables	(41,086)	-	-	78,224	(41,086)	78,224
Trade and other payables	-	(155,922)	117,011	-	117,011	(155,922)
	(56,210)	(216,469)	970,631	541,117	914,421	324,648

(b) Movement in net temporary differences during the year

’000 AMD	**31 December 2005**	**Recognised in income**	**Recognise d in equity**	**31 December 2006**
Property, plant and equipment	417,671	39,328	396,621	853,620
Deferred mining expenses	45,222	(51,360)	-	(6,138)
Inventories	(60,547)	51,561	-	(8,986)
Trade and other receivables	78,224	(119,310)	-	(41,086)
Trade and other payables	(155,922)	272,933	-	117,011
	324,648	193,152	396,621	914,421

22 Loans and borrowings

	2006	**2005**
	’000 AMD	**’000 AMD**
Non-current liabilities		
Loan from other related parties	146,971	-
	146,971	-
Current liabilities		
Secured bank loans (USD 4,500 thousand (2005: USD 3,500 thousand))	1,636,311	1,575,665
Unamortised interest	16,424	18,161
	1,652,735	1,593,826

The bank loans carry an effective interest rate of 11.9% (2005: 10.3%) per annum. The bank loans carry a floating interest rate linked to LIBOR. The Company shall repay each disbursement for each tranche of the loan on the date which is three months after the date of such disbursement.

The Company has pledged as collateral to secure bank loans:

- all its immovable property, plant and equipment;
- all movable property, plant and equipment with a value in excess of AMD equivalent of Euro 10,000;
- commodities in circulation - including all copper concentrate, copper scrap and finished products (blister copper);
- revenue account - all monetary assets available in the Revenue Account (escrow account), as well as deposited into such account in the future;
- disbursement account - all monetary assets available in the Disbursement Account (escrow account), as well as deposited into such account in the future;
- shares - 3,069,716 shares;
- all of its rights, interests and benefits (including the right of insurance compensation) under its insurance agreements; and
- all of its rights, interests and benefits under the "off-take" agreements.

23 Deferred income

The Company was awarded a government grant in 2005 as a result of changes to the Land Code of the Republic of Armenia. The fair value of granted land amounting to AMD 78,973 thousand which has been recognised as deferred income, is being amortised over the useful life of the buildings and constructions located on the granted land.

24 Trade and other payables

	2006 '000 AMD	2005 '000 AMD
Trade payables	884,922	3,126,968
Other payables	174,399	350,235
Other taxes payable	102,887	22,448
Advances received	89,874	935,956
	1,252,082	4,435,607

25 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not hedge its exposure to such risk.

(a) Credit risk

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

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

(b) Interest rate risk

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

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than AMD. The currency giving rise to this risk is primarily USD. Management does not hedge the Group's exposure to foreign currency risk. The official exchange rate at the balance sheet date was AMD 363.50 : USD 1 (31 December 2005: AMD 450.19 : USD 1).

(d) Fair value

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

The fair value of available-for-sale investments, representing investments in equity securities, is the cost less impairment losses as these securities are not quoted and their fair value cannot be estimated on a reasonable basis by other means.

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

26 Commitments

The Parent Company has entered into a contract to invest AMD 50,000 thousand in Gugarqi GEO during upcoming 3 years from the date of acquisition.

27 Contingencies

(a) Environmental matters

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

(b) Insurance

The insurance industry in the Republic of 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.

(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. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

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.

28 Related party transactions

(a) Control relationships

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

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

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

(b) Management remuneration

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

	2006 '000 AMD	2005 '000 AMD
Directors	11,128	11,040
Senior management	21,308	18,907
	32,436	29,947

(c) Transactions with other related parties

The other related party transactions are disclosed below.

(i) Revenue

'000 AMD	Transaction value 2006	Outstanding balance 2006	Transaction value 2005	Outstanding balance 2005
Sale of products:				
Fellow subsidiaries:				
Base Metals Ltd	150,250	4,179	132,002	713,681
Vallex Mining Ltd	13,701	6,633	6,992	8,725
Base Metals Yerevan office	-	63,681	-	175,286
Other:				
Mining and Metallurgy Institute	29,550	11,100	12,992	9,204
Services provided:				
Fellow subsidiaries:				
Base Metals Ltd	32,164	-	53,185	-
Vallex Mining Ltd	39,809	11,368	51,286	8,962
Vallex IT Ltd	1,309	137	1,369	137
Base Metals Yerevan office	533	2,087	534	3,773
Other:				
Mining and Metallurgy Institute	7,145	8,023	17,170	23,672
Manes ojsc	454	152	-	-
	274,915	107,360	275,530	943,440

(ii) Expenses

'000 AMD	Transaction value 2006	Outstanding balance 2006	Transaction value 2005	Outstanding balance 2005
Sale of goods:				
Fellow subsidiaries:				
Base Metals Ltd	11,002,445	1,208,695	6,840,295	1,270,555
Lorva Geo cjsc	8,956	547	5,434	-
Vallex Mining Ltd	99,877	1,686	75,248	-
Vallex F.M. Est Ltd	-	42,530	-	52,673
Vallex IT Ltd	41,108	1,818	7,489	198
Base Metals Yerevan office	913,619	865	-	-
Vallex Group	39	6	-	-
Other:				
Mining and Metallurgy Institute	27,990	-	4,181	4,963
Manes ojsc	2,232	-	242	-
Services provided:				
Fellow subsidiaries:				
Base Metals Ltd	5,179	-	-	-
Lorva Geo cjsc	14,097	354	10,789	1,639
Vallex Mining Ltd	960	960	-	-
Vallex IT Ltd	1,260	1,260	-	-
Base Metals Yerevan office	2,393	1,148	-	-
Metal Trans	107,167	1,990	56,687	8,558
Vallex Group	1,800	-	-	-
Unconsolidated subsidiary:				
Gugarqi GEO ojsc	10,927	2,085	-	-
Other:				
Mining and Metallurgy Institute	654,734	52,254	225,798	201,860
	12,894,783	1,316,198	7,226,163	1,540,446

(iii) Loans

’000 AMD	**Amount loaned 2006**	**Outstanding balance 2006**	**Amount loaned 2005**	**Outstanding balance 2005**
Loans received:				
Fellow subsidiary:				
Base Metals Ltd	146,971	149,366	-	-
	146,971	149,366	-	-

The loan from other related party bears interest at 10% per annum and is repayable in 2008.

(d) Pricing policies

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

29 Significant subsidiaries

	Country of incorporation	**2006 Ownership/voting**	**2005 Ownership/voting**
Teghout cjsc	Republic of Armenia	100%	-

30 Concentration of significant risks

The Company sells 99% of its product to one customer (2005: 92%).

31 Events subsequent to balance sheet date

In July 2007 the Company issued 10 thousand coupon bonds with nominal value of AMD 50 thousand. For the purpose of issue of the bonds the Company filed its financial statements prepared under Accounting Standards of the Republic of Armenia with Central Bank of the Republic of Armenia. The Company plans to place issued bonds via specialised underwriter. 8 thousand bonds will be placed between members of underwriting syndicate and 2 thousand – via open subscription.

32 Restatement in respect of prior periods

The carrying amount of the land granted to the Company in 2005 as a result of changes to the Land Code of the Republic of Armenia was stated at nil in 2005 financial statements. During the revaluation of property, plant and equipment as at 31 December 2006 the granted land included under property, plant and equipment and investment property has been revalued to its fair value of AMD 78,973 thousand. Management of the Group made corresponding corrections in these financial statements.

These corrections were recognised retrospectively, and comparatives have been restated. The impact of the restatements is as follows:

	'000 AMD
Property plant and equipment	
Property plant and equipment as at 31 December 2005 as previously reported	4,764,338
Restatement in respect of prior periods	70,083
Restated balance at 1 January 2006	4,834,421

	'000 AMD
Investment property	
Investment property as at 31 December 2005 as previously reported	141,627
Restatement in respect of prior periods	8,890
Restated balance at 1 January 2006	150,517

	'000 AMD
Deferred income	
Deferred income as at 31 December 2005 as previously reported	-
Restatement in respect of prior periods	78,973
Restated balance at 1 January 2006	78,973