Armenian Copper Programme CJSC

Consolidated financial statements

prepared in accordance with
International Financial Reporting Standards

31 December 2013
together with Independent auditor's report

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Independent auditors' report

To the shareholders and management of Armenian Copper Programme CJSC

We have audited the accompanying consolidated financial statements of Armenian Copper Programme CJSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the audited entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the fairness of 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our 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 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 policies used and the reasonableness of accounting estimates made by management of the audited entity, 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group and its subsidiary as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young CJSC

Partner Ruslan Khoroshvili

On behalf of the General Director H. Sarkisyan Eric Hayrapetyan
(by procuration dated 31 July 2013)

7 August,2014

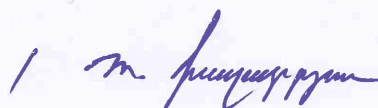
Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2013

(in thousands drams)

	Notes	2013	2012
Revenue	5	37,350,063	43,353,675
Cost of sales	6	(32,473,840)	(35,068,916)
Gross profit		**4,876,223**	**8,284,759**
Other income	7	52,296	172,392
Administrative expenses	8	(1,282,968)	(1,341,756)
Selling expenses		(335,235)	(280,061)
Other expenses	9	(785,165)	(314,457)
Operating profit		**2,525,151**	**6,520,877**
Finance income		55,217	3,076
Finance expenses	10	(512,933)	(1,035,887)
Profit before income tax		**2,067,435**	**5,488,066**
Income tax expense	11	(501,395)	(1,277,448)
Profit for the year		**1,566,040**	**4,210,618**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,566,040**	**4,210,618**
Attributable to:			
Equity holders of the parent		1,517,414	4,290,087
Non-controlling interests		48,626	(79,469)
		1,566,040	**4,210,618**

Consolidated financial statements are signed and authorised for issue in accordance with a resolution of Armenian Copper Programme CJCS.

Director  Gagik Arzumanyan

Chief Accountant Hamlet Harutyunyan

7 August 2014

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2013

(in thousands drams)

	Notes	*2013*	*2012*
Assets			
Property, plant and equipment	13	94,352,680	60,048,700
Intangible assets		89,854	114,594
Mining property	12	20,972,393	11,347,125
Advances for non-current assets		6,528,303	10,313,392
Borrowings given		56,800	–
VAT recoverable		2,125,255	5,798,640
Deferred tax asset	11	305,827	382,043
Income tax prepayment		132,339	–
Other non-current assets		14,632	14,631
Non-current assets		124,578,083	88,019,125
Inventories	14	4,198,195	6,842,446
Trade and other receivables	15	14,593,829	4,653,443
Prepaid finance expenses		975,687	1,555,001
Borrowings given		8,487	62,665
Cash and cash equivalents	16	1,617,182	3,309,152
Current assets		21,393,380	16,422,707
Total assets		145,971,463	104,441,832
Equity			
Share capital	18	3,069,716	3,069,716
Accumulated profit		18,470,093	16,952,679
Equity holders of the parent		21,539,809	20,022,395
Non-controlling interests		3,973,466	3,924,840
Total equity		25,513,275	23,947,235
Liabilities			
Loans and borrowings	19	107,265,769	65,413,150
Government grants		68,637	70,160
Site restoration provision	21	525,837	228,488
VAT payable		2,125,256	2,660,002
Total non-current liabilities		109,985,499	68,371,800
Loans and borrowings	19	5,721,614	10,267,747
Trade and other payables	20	4,639,252	1,199,096
Income tax payable		–	535,163
Site restoration provision	21	111,823	120,791
Total current liabilities		10,472,689	12,122,797
Total liabilities		120,458,188	80,494,597
Total equity and liabilities		145,971,463	104,441,832

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2013

(in thousands drams)

	Attributable to the equity holders of the parent			*Non-controlling interests*	*Total equity*
	Share capital (Note 18)	*Accumulated profit*	*Total*		
Balance at 1 January 2012	3,069,716	12,662,592	15,732,308	4,004,309	19,736,617
Total comprehensive income	–	4,290,087	4,290,087	(79,469)	4,210,618
Balance at 31 December 2012	3,069,716	16,952,679	20,022,395	3,924,840	23,947,235
Total comprehensive income	–	1,517,414	1,517,414	48,626	1,566,040
Balance at 31 December 2013	3,069,716	18,470,093	21,539,809	3,973,466	25,513,275

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2013

(in thousands drams)

	Notes	*2013*	*2012*
Cash flows from operating activities			
Cash received from customers, including VAT		50,286,975	43,704,467
Cash received from budget as return of VAT		5,789,891	5,852,320
Cash paid to suppliers, including VAT		(54,208,175)	(46,529,632)
Cash paid to employees		(1,067,900)	(982,118)
Interest paid		(2,228,987)	(2,588,397)
Other taxes paid		(1,743,434)	(781,344)
Income tax paid*		(728,000)	(966,000)
Net cash flows used in operating activities		**(3,899,630)**	**(2,290,704)**
Cash flows from investing activities			
Acquisition and construction of property, plant and equipment		(29,297,960)	(30,858,380)
Acquisition of intangible assets		–	(5,000)
Proceeds from sale of property, plant and equipment		10,758	769,924
Net cash flows used in investing activities		**(29,287,202)**	**(30,093,456)**
Cash flow from financing activities			
Proceeds from loans and borrowings		62,807,830	84,621,691
Repayment of loans and borrowings		(31,385,737)	(47,240,883)
Net cash flows from financing activities		**31,422,093**	**37,380,808**
Net (decrease)/increase in cash and cash equivalents		**(1,764,739)**	**2,504,548**
Effect of exchange rate changes on cash and cash equivalents		72,769	45,660
Cash and cash equivalents at 1 January	16	**3,309,152**	**758,944**
Cash and cash equivalents at 31 December	16	**1,617,182**	**3,309,152**

* The Group has settled the VAT receivable from budget with income tax payable in the amount 364,681 (2012: 308,173).

(in thousands drams)

1. Corporate information

The consolidated financial statements of Armenian Copper Programme CJSC (the "Company") and it's subsudiaries (together the "Group") is presented for the year ended 31 December 2013.

The Company is a closed joint stock company incorporated in accordance with the legislations of the Republic of Armenia in 1997. The Company's registered address is: 19 Khanjyan Street, Yerevan, Republic of Armenia.

The Company's principal activity is the mining, processing and sale of copper concentrate.

The Company is ultimate parent company for Teghout CJCS (through subsidiary Teghout Investments Limited (Cyprus). The Company owns 50.05% shares of Teghout Investments, and the rest of the shares belong to VTB Group, headed by VTB Bank OJSC. The 49.95% shares of Teghout Investments are not participative, but provide protective rights to VTB Group.

The Group includes the following subsidiaries:

Name	Principal activities	Country of incorporation	% equity interest 2013	2012
Teghout CJCS	Mining	Armenia	100%	100%
Teghout Investment Management LLC	Management services	Cyprus	50.5%	50.5%
Gugharki GEO OJCS	Mining	Armenia	100%	100%
Vallex IT LLC	IT support	Armenia	100%	100%

The Group owns the 16.32% of shares in Manes non-ferrous metal plant OJSC (Armenia) (2012:16.32%).

The Group is ultimately controlled by a single individual, Mr. Valery Mejlumyan, who has the power to direct the Group's at his own discretion and for his own benefit. He also holds interest in other businesses not related to the Group. Related party transactions are detailed in Note 22.

2.1 Basis of preparation

Statement of compliance

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, available-for-sale financial assets and contingent consideration that have been measured at fair value.

2.2 Basis of consolidation

The consolidated financial statements comprise of the financial statements of the Group as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

(in thousands drams)

2.2 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

Production start date

The Group assesses the stage of each mine under construction to determine when a mine moves into the production phase. This being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of the project and its location. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. Some of the criteria used to identify the production start date include, but are not limited to:

- Level of capital expenditure incurred compared to the original construction cost estimate
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce metal in saleable form (within specifications)
- Ability to sustain ongoing production of metal.

(in thousands drams)

2.3 Significant accounting judgements, estimates and assumptions (continued)

Judgements (continued)

When a mine development/construction project moves into the production phase, the capitalisation of certain mine development/construction costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/depletion and amortisation commences.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Ore reserve and mineral resource estimates

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body.

As the economic assumptions used may change and as additional geological information is produced during the operation of a mine, estimates of reserves may change. Such changes may impact the Group's reported financial position and results which include:

- The carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows;
- Depreciation, depletion and amortisation charges in profit or loss may change where such charges are determined using the units of production method, or where the useful life of the related assets change;
- Capitalised stripping costs recognised in the statement of financial position as either deferred stripping or as part of inventory or charged to profit or loss may change due to changes in stripping ratios;
- Provisions for rehabilitation and environmental provisions may change where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the Group's control. Ore reserve estimates are based on 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 low grades of mineralization 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.

Provision for site restoration

The Group analyzes the site restoration provision at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC Interpretation IFRIC 1 *Changes in Decommissioning, Restoration and Similar Liabilities*. The amount of provision reflects the best estimate of the expenditure required to settle the present obligation at the balance sheet date. In determining the best estimate of the provision the risks and uncertainties that inevitably surround many events and circumstances are being taken into account. Assessment of the future costs of site restoration requires the significant amount of management judgment. Future events that may affect the amount required to settle an obligation are being reflected in the amount of the provision if there is an objective evidence that those event might occur.

(in thousands drams)

2.3 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. The fair values of financial instruments measured at amortised cost are disclosed in Notes. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit (CGU) at fair value less costs of disposal.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in estimates and assumptions about these inputs could affect the reported fair value.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on experience with similar assets. Future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets.

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions.

Impairment of assets and accounting for provisions

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If any indication of impairment exists, the carrying value of the asset is written down to its recoverable amount. The impairment loss is recorded in the consolidated statement of profit or loss and other comprehensive income for the period when the impairment took place.

If the situation changes, and management considers that the value if assets has increased, the allowance for impairment is fully or partially reversed.

Accounting for impairment includes allowance against property, plant and equipment, intangible assets, trade and other receivables, other non-current assets and inventory obsolescence.

The provisions for liabilities and charges primarily include provisions for tax liabilities and legal proceedings. The Group records an impairment charge or accrues these provisions when its assessments indicate that it is probable that a liability will arise or an asset will not be recovered and the amount can be reasonably estimated. The impairment provision for accounts receivable is based on the management's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates.

If management determines that no objective evidence exists that impairment has occurred for any specific accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

(in thousands drams)

2.3 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

For the purpose of collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of accounts receivable that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts.

Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Tax legislation

Compliance with tax legislation in the Republic of Armenia is subject to a significant degree of interpretation and can be routinely challenged by tax authorities. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

2.4 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

The following specific recognition criteria must also be met before revenue is recognized:

Copper and gold in concentrate sales

Contract terms for the Group's sale of copper and gold in concentrate (metal in concentrate) to third parties allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the final content. These are referred to as provisional pricing arrangements, and are such that the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (the quotation period). Adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement. The period between provisional invoicing and final settlement can be between one and six months.

Sales contracts for metal in concentrate that have provisional pricing features are considered to contain an embedded derivative, which is required to be separated from the host contract for accounting purposes. The host contract is the sale of metals in concentrate and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. Recognition of sales revenue for these commodities is based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the spot price at the date of shipment. The embedded derivative, which does not qualify for hedge accounting, is initially recognised at fair value, with subsequent changes in the fair value recognised in profit or loss. Changes in fair value over the quotation period and up until final settlement are estimated by reference to forward market prices for gold and copper.

Rendering of services

Revenue from services rendered is recognized by reference to the stage of completion. Stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in other income due to its non-operating nature.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual installments.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Taxes

Current tax expense

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change.

Value added tax

Output value added tax arising on the sale of goods is payable to the tax authorities upon delivery of goods and services to customers. Input VAT is generally recoverable against output VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT amounts related to sales and purchases are recognized in the balance sheet on a net basis and disclosed separately as an asset or liability. Where provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenses attributable directly to acquisition of the respective assets. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Where items of property, plant and equipment comprise separate components having different useful lives, each of the components is accounted for as a separate item (major component) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component 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 component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of current repairs and maintenance of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of an asset are assessed individually and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component 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 of significant items of property, plant and equipment for the current and comparative periods are as follows:

- Plant and equipment 5-10 years;
- Buildings and structures 20-50 years;
- Vehicles 5-10 years;
- Other 5-10 years.

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

Mining property

Mining property is presented as a separate class of assets. The cost of mining property represents expenses directly attributable to the mine area and includes expenses related to exploratory works, site restoration, stripping and preparation for extraction.

Estimated economically recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Numerous units of production (UOP) depreciation methodologies are available to choose from.

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.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Operating lease

Where the Group is a lessee in a lease, which does not transfer substantially all the risks and benefits incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises the borrowing costs related to the corresponding eligible assets which construction begun at 1 January 2009 or after.

Intangible assets

Recognition and measurement

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

Subsequent costs

Subsequent costs are capitalized only if they increase the future economic benefits embodied in the specific asset to which they relate. All other costs, including costs incurred on internally generated brands and goodwill, are recognized in profit or loss as incurred.

Amortization

Amortization is calculated over the cost of the asset or any other substituting amount, less the residual value of the asset.

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.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Intangible assets (continued)

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

- Licenses license term;
- Other intangible assets 5-10 years.

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

Financial assets

Key measurement terms

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e. the date when the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, loans issued and trade and other receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments, as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance revenue (positive net changes in fair value) in the statement of profit or loss and other comprehensive income. The Group has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in profit or loss. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or there is a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The effective interest rate amortization is included in finance income in the consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the consolidated statement of profit or loss and other comprehensive income as finance costs.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Group's financial liabilities include trade and other payables.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss and other comprehensive income.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 is recognised in the income statement as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment;
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement as finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit and loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement as other operating expenses.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

The ineffective portion relating to foreign currency contracts is recognised in finance costs and the ineffective portion relating to commodity contracts is recognised in other operating income.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss 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 are impaired can include default or delinquency by borrowers, restructuring of an amount due to the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of the Group's borrowers or issuers, or economic conditions that correlate with defaults.

Loans and receivables

The Group considers evidence of impairment for loans and receivables both at the level of individual assets, and an asset portfolio. All individually significant assets are assessed for impairment on an individual basis. Where individually significant loans and receivables show no indication of being individually impaired, they are included in a portfolio and collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Impairment (continued)

In assessing evidence of collective impairment, the Group reviews historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that 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 amortized 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 recognized in profit or loss for the period and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized 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.

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. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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 or cash-generating unit. 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 cash-generating units.

Corporate assets are allocated to cash-generating units on a reasonable and consistent basis and tested for impairment as part of the testing of the cash-generating unit to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed 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, less accumulated depreciation or amortization, if no impairment loss had been recognized.

Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of inventory is determined on the first-in, first-out basis and includes expenses incurred in acquiring inventories and bringing them to their existing location and condition.

Advances

Advances carried at amortized cost less provision for impairment. Advances are classified as non-current when the goods or services relating to the advances are expected to be obtained after one year, or when the advance relates to an asset which will itself be classified as non-current upon initial recognition. Advances to acquire assets are included in the carrying amount of the asset once the Group has obtained control over the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances are written off to profit or loss when the goods or services relating to the advances are received. If there is an indication that the asset, goods or services relating to the advances will not be received, the carrying value of advances is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on call deposits with banks, and other short-term highly liquid investments with original maturities of three months or less.

(in thousands drams)

2.4 Summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Employee benefits

Wages, salaries, contributions to the state pension fund and social insurance funds of the Republic of Armenia, paid annual leave and sick leave, bonuses and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. Employees receive pension benefits from the State pension fund of the Republic of Armenia in accordance with the laws and regulations. Contributions are made by the Group to the Government's Pension fund at the statutory rates in force during the year.

Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Foreign currency translation

The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The functional currency of the Group is the national currency of the Republic of Armenia – the Armenian Dram (AMD).

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of Armenia (CBA) at respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBA are recognized in profit and loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2013, the principal rates of exchange used for translating foreign currency balances were 405.64 AMD/US dollar (USD) (2012: 403.58 AMD/USD), 559.54 AMD/Euro (EUR) (2012: 532.24 AMD/EUR), 12.44 AMD/Russian Ruble (RUB) (2012: 13.27 AMD/RUB).

3. New and amended standards and interpretations

There were a number of new standards and interpretations, effective from 1 January 2013 that the Group applied for the first time in the current year. These include IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements*, IAS 28 *Investment in Associates and Joint Ventures* and IFRS 13 *Fair Value Measurement*. Other than IFRIC 20, while none of these standards required a restatement of previous financial statements, they did result in certain disclosures being updated. In addition, the application of IFRS 12 *Disclosure of Interests in Other Entities* resulted in additional disclosures in the consolidated financial statements.

Several other amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard and/or amendment is described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 now clarifies when an entity should recognise production phase waste removal (stripping) costs (production stripping costs) incurred in relation to a surface mining operation, as an asset. Such an asset will be referred to as a stripping activity asset. The interpretation is effective for annual reporting periods beginning on or after 1 January 2013 and has impacted the way in which the Group accounts for production stripping costs.

(in thousands drams)

3. New and amended standards and interpretations (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues covered in SIC-12 *Consolidation — Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including structured entities (previously referred to as special purpose entities). The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

The application of IFRS 10 and IAS 27 did not impact the Group's accounting for its interests in subsidiaries.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

The application of IFRS 11 and IAS 28 did not impact the Group's accounting for its interests in joint arrangements because the Group determined that:

- Its joint arrangements that were previously classified as jointly controlled assets were classified as joint operations under IFRS 11;
- Its joint arrangement that was previously classified as a jointly controlled entity (JCE) and equity accounted was classified as a joint venture under IFRS 11 and hence continued to be equity accounted.

As a result, the Group's previous methods of accounting for its joint arrangements continue to be appropriate under IFRS 11. The change has no affect on Group's financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for such investments but will have no impact on the Group's financial position or performance. IFRS 12 does not affects the presentation of Group's financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group reassessed its policies for measuring fair values — in particular its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective: The Group is currently assessing the impact that these standard will have on its financial position and performance.

(in thousands drams)

4. Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments – Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on classification and measurement of financial liabilities. The Group will quantify the effect of the adoption of this standard in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the Interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, with early application permitted. The adoption of IFRIC 21 may have an impact on the Group's accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12. However, the Group is still assessing and quantifying the effect.

5. Revenue

	2013	*2012*
Revenue from blister copper	35,167,439	43,054,368
Revenue from services provided	68,537	225,133
Revenue from sale of other products	2,114,087	74,174
	37,350,063	**43,353,675**

At 31 December 2013 the Group had outstanding provisionally priced sales of dry metric tonnes of blister copper 1,970 (2012: 1,671 dry metric tonnes of blister copper), which had an embedded derivative with a fair value of 220,866 (2012: 30,240). The resulting embedded derivative is recognised in the revenue.

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 London Metal Exchange.

6. Cost of sales

	2013	*2012*
Purchase of copper concentrate	28,568,412	32,374,343
Gas	1,477,035	1,260,609
Wages and salaries	973,497	800,025
Depreciation and amortization	624,213	196,600
Maintenance and repair	556,741	99,629
Materials	273,942	337,710
	32,473,840	**35,068,916**

At 31 December 2013 the Group had outstanding provisionally priced purchases of 11,846 dry metric tonnes of copper concentrate (2012: 13,984 dry metric tonnes of copper concentrate), which had an embedded derivative with a fair value of 133,083 (2012: 99,093). The resulting embedded derivative is recognised in the cost of sales.

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 London Metal Exchange.

(in thousands drams)

7. Other income

	2013	*2012*
Recovery of inventory value from dismantling of fixed assets	21,745	–
Inventory surplus	11,684	77,532
Income from sale of inventory	6,872	73,915
Income from rent	2,189	3,244
Other	9,806	17,701
	52,296	172,392

8. Administrative expenses

	2013	*2012*
Wages and salaries	505,282	439,312
Depreciation and amortisation	141,029	133,130
Maintenance	119,374	147,533
Audit and consulting fees	86,028	80,916
Representation expenses and business trips	83,532	73,723
Environmental fees	82,102	112,238
Utilities and communication	65,802	52,542
Management fee	48,025	47,100
Taxes other than income tax	34,628	119,429
Bank charges and insurance	24,558	20,330
IT Support	16,051	16,010
Other	76,557	99,493
	1,282,968	1,341,756

9. Other expenses

	2013	*2012*
Loss from disposal of property, plant and equipment	464,292	48,989
Payments to labor union	64,759	31,112
Inventory write off	33,498	–
Operating Lease	33,379	33,674
Donation	30,958	–
Financial assistance	30,217	27,032
Security	27,140	30,682
Foreign currency conversion	23,472	4,335
Geological researches	19,616	8,590
Maintenance and repair	13,649	8,165
Advertisement	12,465	19,890
Bad debt expense	–	61,500
Penalties	4,917	20,610
Other	26,803	19,878
	785,165	314,457

10. Finance expenses

	2013	*2012*
Interest expenses	512,933	432,983
Net loss from foreign currency revaluation	–	602,904
	512,933	1,035,887

(in thousands drams)

11. Income tax

The major components of income tax expense are as follows:

	2013	*2012*
Current income tax:		
Current income tax charge	425,179	1,271,629
Deferred income tax:		
Relating to origination and reversal of temporary differences	76,216	5,819
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**501,395**	**1,277,448**

	2013	*2012*
Accounting loss before income tax	**2,067,435**	**5,488,066**
At the income tax rate of 20% established by Armenian legislation (2012: 20%)	413,487	1,097,613
Foreign currency exchange (gain)/loss	(10,519)	120,581
Revaluation of advances for non-current assets	–	48,848
Repair and maintenance	34,260	3,646
Representative expenses	27,289	3,115
Loss from property, plant and equipment disposal	18,293	1,080
Other non-deductible expenses	18,585	2,565
At effective income tax rate	**501,395**	**1,277,448**
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**501,395**	**1,277,448**

Deferred income tax

Deferred income tax relates to the following:

	1 January 2012	*Recognized in profit or loss*	*31 December 2012*	*Recognized in profit or loss*	*31 December 2013*
Prepaid finance expenses	208,483	(48,848)	159,635	(3,765)	155,870
Trade and other payable	(127,903)	294,262	166,359	(40,099)	126,260
Property, plant and equipment	173,670	(195,506)	(21,836)	113,463	91,627
Loans and borrowings	–	70,503	70,503	(6,262)	64,241
Tax loss carried forward	29,001	70,992	99,993	(70,992)	29,001
Inventory	–	–	–	6,349	6,349
Intangible assets	14,000	(14,000)	–	4,672	4,672
Other non-current assets	6,786	(6,786)	–	–	–
Deferred tax asset	**304,037**	**170,617**	**474,654**	**3,366**	**478,020**
Trade and other receivable	79,569	(153,846)	(74,277)	(56,992)	(131,269)
Mining property	4,256	(22,590)	(18,334)	(22,590)	(40,924)
Deferred tax liability	**83,825**	**(176,436)**	**(92,611)**	**(79,582)**	**(172,193)**
Deferred tax asset, net	**387,862**	**(5,819)**	**382,043**	**(76,216)**	**305,827**

The Group offsets tax assets and liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same tax authority.

(in thousands drams)

12. Mining property

	Alaverdi deposit	*Teghout deposit*	*Total*
Cost			
Balance at 1 January 2012	**1,469,861**	**4,095,319**	**5,565,180**
Additions	–	7,251,806	7,251,806
Balance at 31 December 2012	**1,469,861**	**11,347,125**	**12,816,986**
Additions	–	9,625,268	9,625,268
Balance at 31 December 2013	**1,469,861**	**20,972,393**	**22,442,254**
Accumulated depletion			
Balance at 1 January 2012	**1,469,861**	**–**	**1,469,861**
Depletion charge for the year	–	–	–
Balance at 31 December 2012	**1,469,861**	**–**	**1,469,861**
Depletion charge for the year	–	–	–
Balance at 31 December 2013	**1,469,861**	**–**	**1,469,861**
Carrying value			
At 1 January 2012	**–**	**4,095,319**	**4,095,319**
At 31 December 2012	**–**	**11,347,125**	**11,347,125**
At 31 December 2013	**–**	**20,972,393**	**20,972,393**

13. Property, plant and equipment

	Land and Buildings	*Machines and equipment*	*Vehicles*	*Construction in progress*	*Other*	*Total*
At 1 January 2012	**9,247,234**	**10,094,745**	**544,155**	**21,182,916**	**935,782**	**42,004,832**
Additions	1,685,504	21,003,995	397,230	10,849,218	119,395	**34,055,342**
Disposals	(81,665)	(85,611)	(9,792)	–	(2,404)	**(179,472)**
Transfers	18,275	43,559	6,383	(18,275)	(49,942)	**–**
At 31 December 2012	**10,869,348**	**31,056,688**	**937,976**	**32,013,859**	**1,002,831**	**75,880,702**
Additions	2,008,157	22,011,536	43,855	13,204,586	161,678	**37,429,812**
Disposals	(7,921)	(1,239,175)	(10,257)	(33,812)	(9,767)	**(1,300,932)**
Transfers	4,527,946	347,880	105,754	(4,906,739)	(74,841)	**0**
At 31 December 2013	**17,397,530**	**52,176,929**	**1,077,328**	**40,277,894**	**1,079,901**	**112,009,582**
Depreciation and impairment						
At 1 January 2012	**6,001,233**	**6,960,625**	**331,545**	**141,683**	**571,884**	**14,006,970**
Depreciation charge for the year	140,664	1,705,991	40,794	–	57,778	**1,945,227**
Disposals	(75,681)	(39,857)	(3,327)	–	(1,330)	**(120,195)**
Transfers	–	1,512	–	–	(1,512)	**–**
At 31 December 2012	**6,066,216**	**8,628,271**	**369,012**	**141,683**	**626,820**	**15,832,002**
Depreciation charge for the year	221,379	2,292,512	76,784	–	59,482	**2,650,157**
Disposals	(5,881)	(806,170)	(6,170)	–	(7,036)	**(825,257)**
Transfers	(1,257)	2,431	(536)	–	(638)	**–**
At 31 December 2013	**6,280,457**	**10,117,044**	**439,090**	**141,683**	**678,628**	**17,656,902**
Carrying value						
At 1 January 2012	**3,246,001**	**3,134,120**	**212,610**	**21,041,233**	**363,898**	**27,997,862**
At 31 December 2012	**4,803,132**	**22,428,417**	**568,964**	**31,872,176**	**376,011**	**60,048,700**
At 31 December 2013	**11,117,073**	**42,059,885**	**638,238**	**40,136,211**	**401,273**	**94,352,680**

(in thousands drams)

13. Property, plant and equipment (continued)

Borrowing costs in the amount of 11,962,378 incurred by the Group in 2013 were capitalized within property, plant and equipment (2012: 8,715,532). Depreciation charge in the amount of 1,909,654 was capitalized within property, plant and equipment in 2013 (2012: 1,640,692).

The Group pledged a plot of land and buildings in the amount of 811,139, as well as property, plant and equipment in the amount of 26,109,995, as collateral under credit line facilities (Note 19).

14. Inventory

	2013	*2012*
Raw materials	2,902,809	5,201,503
Finished goods	1,072,834	1,191,530
Work in progress	103,721	80,775
Other inventory	118,831	368,638
	4,198,195	6,842,446

15. Trade and other receivables

	2013	*2012*
VAT recoverable	9,042,306	2,684,865
Trade receivable	1,063,664	1,138,015
Financial assets at fair value through profit and loss	–	68,853
Other accounts receivable	169,008	21,265
Financial assets within trade and other receivables	**10,274,978**	**3,912,998**
Prepayments given	4,318,851	740,445
Total trade and other receivables	**14,593,829**	**4,653,443**

At 31 December 2013 the Group had outstanding provisionally priced sales, which had an embedded derivative with a fair value of 220,866 (2012: 30,240). The resulting embedded derivative is recognised in the revenue.

As at 31 December 2013 trade and other receivable contains trade receivable from foreign customer nominated in foreign currency (USD) in the amount of 1,097,264 (2012: 852,385).

	Provision for impairment
At 31 December 2012	**61,500**
Charge for the year	–
At 31 December 2013	**61,500**

16. Cash and cash equivalents

	2013	*2012*
Cash on hand	1,022	1,017
Current bank accounts	438,847	1,901,819
Cash in transit	1,177,313	1,406,316
	1,617,182	3,309,152

(in thousands drams)

16. Cash and cash equivalents (continued)

Cash and cash equivalents at 31 December 2013 and 31 December 2012 comprised:

	2013	*2012*
Bank and petty cash balances, USD	1,512,441	3,152,235
Bank and petty cash balances, AMD	62,561	135,809
Bank balances, EUR	22,188	13,585
Bank balances, RUB	19,992	7,523
	1,617,182	**3,309,152**

17. Prepaid finance expenses

As part of credit line agreement of USD 283,300 thousand between the Subsidiary and VTB Bank Armenia CJSC (see Note 19), the Group was obliged to transfer to VTB Group 49.95% shares in the subsidiary – Teghout Investments Limited (see Note 1), the ownership of 25.05% out of these shares was transferred to VTB Group and gave rights for pro-rata share of benefits from net assets of Teghout Investments Limited.

Group recognised the 25.05% of carrying value of the Subsidiary's net assets as non-controlling interest, in the amount of 3,924,840 (2012: 3,924,840), the fair value of the above 25.05% portion of shares transferred was recognised as prepaid finance expenses in the amount 3,049,021 as at 31 December 2011. During 2012 the Group has received a loan in the amount of USD 137,460 thousand, and the prepaid finance expenses in the amount of 1,494,020 were settled with the loan balance outstanding.

The Group obtained the valuation of fair value of the non-controlling interest; the valuation is not benchmarked against observed transaction prices because of limited market activity in the shares. Instead, the Group applies a discounted cash flow model where some of the inputs are non-observable.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

	Effect on prepaid finance expenses	
	Increase	*Decrease*
2% change in discount rate	(1,857,007)	2,257,816
10% change in the estimated copper prices	3,151,111	(2,855,928)

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values. Key inputs and assumptions used in the model include:

- Group plans to extract 162.8 million tonnes of ore and produce 402,874 thousand dry metric tonnes of copper and 9,807 dry metric tonnes of molybdenum for the years 2014 to 2037 based on the latest assessment of ore reserves.
- Copper prices are projected to increase by 2% in 2014 forecast
- Production costs are expected to increase till 2016 then gradually decrease in line with decrease in stripping. Average inflation of 2% has been applied to estimated production costs.
- A discount rate of 18.5% was applied based on management's assessment of the risks related to Teghout cjsc.
- Minority and illiquidity discounts of 27.8% and 13.8% respectively were applied.
- Capital expenditure of USD 312 million has been projected during 2012-2014 with further replacement expenditure equal to 25% of annual depreciation, adjusted for average inflation.

(in thousands drams)

18. Capital and reserves

Share capital

Number of shares unless otherwise stated	*Ordinary shares* 2013	2012
Authorized shares	5,000,000	5,000,000
Par value	AMD 1,000	AMD 1,000
Outstanding as at 1 January	3,069,716	3,069,716
Outstanding as at 31 December, fully paid	**3,069,716**	**3,069,716**

Ordinary shares

All shares rank equally with regard to the Group's residual assets.

Holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at Group meetings.

All the ordinary shares are pledged as collateral under credit line facilities (Note 19).

Dividends

In accordance with Armenian legislation, the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's financial statements prepared in accordance with IFRS.

19. Loans and borrowings

	2013	2012
Non-current liabilities		
Secured bank loans	100,997,266	65,413,150
Loans from other related parties	6,268,503	–
	107,265,769	**65,413,150**
Current liabilities		
Secured bank loans	5,721,614	4,052,818
Loans from other related parties	–	6,214,929
	5,721,614	**10,267,747**

Secured loan 1 from OJSC VTB Bank

The general credit line agreement limited to USD 283,300 thousand (AMD 114,334,214 thousand) was signed on 22 November 2011. The credit line consists of three sub-loans at the moment, namely N201, 202, and 203. The interest rate to be used under the sub-loan agreements N201 and N203 is the highest of 11% or LIBOR USD 3m + 6.02% and for the sub-loan agreement N202 – the highest of 13% or LIBOR USD 3m + 8.02%.

The loan from VTB Bank is collateralized by 100% of shares of the Group, 99.999% interest in Vallex F.M.Est held by CJSC KSMA. In addition, collateral for the loan comprises movable and immovable properties owned by the above companies.

The principal and accrued interests are to be repaid starting the year 2015.

(in thousands drams)

19. Loans and borrowings (continued)

	Currency	*Interest rate*	*Maturity*	*2013*	*2012*
Non-current liabilities					
Secured loan 1	USD	11%/13%	2023	91,379,010	55,368,733
Secured loan 2	USD	1m LIBOR +6.5%/ 1m LIBOR +6.75% since May 2013	2016	10,404,264	10,051,938
Unsecured loan from the related party	AMD	9%	–	5,879,395	–
				107,662,669	**65,420,671**
Current liabilities					
Unsecured loan from the related party	AMD	9%	–	–	6,214,929
Secured loan 3	USD	10%	–	5,324,714	4,045,297
				5,324,714	**10,260,226**

20. Trade and other payables

	2013	*2012*
Trade payable	2,038,246	590,691
Financial liabilities at fair value through profit and loss	87,782	-
Other payables	479,023	379,983
Financial liabilities within trade and other payables	**2,605,051**	**970,674**
Taxes other than income tax payable	1,810,831	184,137
Advances received	223,370	44,285
Total trade and other payables	**4,639,252**	**1,199,096**

At 31 December 2013 the Group had outstanding provisionally priced purchases, which had an embedded derivative with a fair value of 133,083 (2012: 99,093). The resulting embedded derivative is recognised in the cost of sales.

As at 31 December 2013 trade payable contains trade payable nominated in foreign currency (mainly nominated in USD) in the amount of 91,449 (2012: 234,305). The rest of receivable is presented in Armenian drams.

Trade and other payables are primarily denominated in AMD and settled within 60 days.

21. Site restoration provision

In 2008, Teghout CJSC agreed with the Government of the Republic of Armenia on an afforestation plan designed to recover the damage caused to the environment as a result of lumbering for mine development and plant construction purposes. In estimating the Group's liability at the reporting date the Group has considered the total area cut, the ratio of the cut area to the area to be planted according to the above plan, 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 with contractors for planting trees.

	Provision
At 1 January 2012	**89,423**
Accrued	107,758
Utilized	(76,390)
At 31 December 2012	**120,791**
Accrued	76,266
Utilized	(85,234)
At 31 December 2013	**111,823**

(in thousands drams)

21. Site restoration provision (continued)

Apart from the provision mentioned above, the Group has formed site restoration provision after stripping activity in the amount amount of 525,837 as at 31 December 2013 (2012: 228,488).

This provision is created as a result of assessment of the works needed to restore the environment after exploitation of mines by "Teghout". According to the initial plan, the main option of recultivation is the basic restoration of industrial zones (waste rock dumps and tailing) as well as other areas from toxic waste by covering them with ground. For this purpose now the Group accumulates and stores soil which is present on the territory of open mine and ore-dressing and processing enterprise. The Group plans to use this soil to cover the territories of the tailings and dumps with a layer of up to 15 cm. Evaluation of recultivation was done, respectively, based on the work required to cover the major industrial zones (tailings and dumps) with soil.

Recultivation works include the following five areas:

- Storage of soil and covering it with grass to prevent erosion;
- Preparatory work for the transportation of soil from the warehouse to the coverage area (loading and preparation);
- Work relating the transportation of soil (to the average distance equal to 3 km);
- Alignment of the coverage;
- Covering the territory with grass.

To evaluate the work in these areas, the Group used the actual costs that have taken place under the same or similar circumstances. According to the assessments mentioned above, recultivation works of Teghout mines will cost approximately 800,000 (2012: 700,000). The provision for land recultivation was created based on the abovementioned assessment using inflation rate of 5.8% (2012: 5%) and risk-free interest rate for discounting 11,64% (2012: 16.35%). The works will be implemented during 2022-2026 period.

	Provision
At 1 January 2012	–
Recultivation provision	228,488
At 31 December 2012	**228,488**
Unwinding for 2013	37,243
Change in estimation	260,106
At 31 December 2013	**525,837**

22. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and such transactions may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Information about the Ultimate parent is disclosed in Note 1. Entities under common control represent entities under control of the Ultimate parent.

(in thousands drams)

22. Related party transactions (continued)

Amounts owed by/to related parties

	Amounts owed by related parties		*Amounts owed to related parties*	
	2013	*2012*	*2013*	*2012*
CJSC Base Metals	974,815	210,860	410,883	415,732
CJSC Vallex Tour	826	–	8,246	12,891
CJSC Lernametalurgiai Institut	100	6,355	180,991	8,871
CJSC Lorva Geo	3	–	1,668	814
CJSC Base Metals, Yerevan branch	–	–	1,086	362
CJSC MGTSM Service	–	–	–	564
CJSC Vallex Group	–	–	6,768	3,744
LLC Valex Mining	–	–	1,500	468
Amounts due by/to related parties	**975,744**	**217,215**	**611,142**	**443,446**

Transactions with related parties

	Sales to related parties		*Purchases from related parties*	
	2013	*2012*	*2013*	*2012*
CJSC Base Metals	3,408,510	304,767	13,864,003	11,986,318
CJSC Lernametalurgiai Institut	1,568	410	1,024,093	1,354,025
LLC Valex Mining	285	400	5,949	5,980
LLC Verd	79	–	–	463
CJSC Vallex Tour	44	83	21,446	145,300
CJSC Vallex Garden Hotel	–	–	3,845	
CJSC Vallex Group	–	–	106,704	85,368
CJSC MGTSM Service	–	–	3,552	24,385
LLC Vallex F.M. Est	–	–	830,360	–
CJSC Lorva Geo	–	–	18,894	23,285
Transactions with related parties	**3,410,486**	**305,660**	**15,878,846**	**13,625,124**

CJSC Base Metals is an entity under common control. Group provides to CJSC Base Metals services associated with drilling mountain mines.

CJSC Lernametalurgiai Institut is an entity under common control. CJSC Lernametalurgiai Institut provides to Group services related to construction works.

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.

Loans

In 2013,the movement in loans payable to related parties was as follows:

	Currency	Interest rate	Balance as of 31 December 2012	Loans received	Interest accrued	Loan repayment	Fair value adjustment	Balance as of 31 December 2013
CJSC Base Metals	AMD	9%	6,214,929	6,141,255	389,109	(6,476,789)	–	6,268,504

(in thousands drams)

22. Related party transactions (continued)

Loans (continued)

In 2012,the movement in loans payable to related parties was as follows:

	Currency	Interest rate	Balance as of 1 January 2012	Loans received	Interest accrued	Loan repayment	Fair value adjustment	Balance as of 31 December 2012
CJSC Base Metals	AMD	9%	23,803,661	200,000	1,176,689	(18,965,421)	–	6,214,929

Compensation to key management personnel

During 2013 compensation to key management personnel was paid in the amount of 108,483 (2012: 54,616).

23. Commitments and contingencies

Business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Management of the Group believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Litigation

In the ordinary course of business, the Group may be subject to legal actions and proceedings. 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 of the Group.

Insurance

While 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 in Armenia, the Group has undertaken measures to insure its property, plant and equipment. The Group obtained adequate insurance coverage; there was a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

In 2013 and 2012, the Group insured its property, plant and equipment for 121,696,980.

Environmental matters

Environmental regulations in Armenia are evolving and the positions of government authorities are continually being reconsidered. The Group evaluates its environmental liabilities on a regular basis. Liabilities are recognized as they arise. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Under existing legislation, management believes that the Group has no significant unrecognized liabilities for environmental damage.

(in thousands drams)

23. Commitments and contingencies (continued)

Operating lease commitments – Group as lessee

The Group entered into agreements for lease of buildings and various equipment with the entity under common control. Leases for buildings have a life of ten years with an automatic renewal option unless a decision is made to terminate a lease. Other leases have an average life of one year with a renewal option as agreed by the parties. There were no restrictions placed upon the lessee by entering into these leases. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2013	*2012*
Within one year	129,241	73,322
After one year but not more than five years	142,510	142,837
More than five years	106,704	106,704
	378,455	322,863

Contingencies related to construction works

Contingent liabilities related to construction include construction services rendered, installation of steel structures, construction of water pipelines, setting up electricity and accompanying construction work. The contracts are mainly concluded in 2013 for a period of up to one year in average.

Future minimum contingencies related to construction works as at 31 December 2013 amounted to 13,340,462 (2012: 22,113,485).

Taxation

Armenian tax, currency and customs legislation is subject to varying interpretations, and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities may assume a tougher stance with regard to the interpretation of legislation and review of tax returns. It is therefore possible that transactions and accounting methods that have not been challenged in the past may be challenged by the tax authorities. As such, significant additional taxes, penalties and fines may be assessed. Tax audits may cover a period of three calendar years immediately preceeding the audited year. Under certain circumstances, reviews may cover earlier periods.

According the changes in Armenian tax legislation which come in force since 1 January 2013, the social payments were cancelled and the new scale for unified income tax calculation was introduced.

As at 31 December 2013, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained by the relevant tax authorities of the Republic of Armenia.

24. Financial risk management objectives and policies

The Group's principal financial liabilities comprise trade and other payables which are essential for the Group's operations and functioning. The Group is exposed to such risks as market risk, credit risk and liquidity risk.

The Group's management oversees the management of these risks. Risk management policies are presented below.

Market risk

The Group has exposure to market risks. Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

(in thousands drams)

24. Financial risk management objectives and policies (continued)

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces. The Group's policy is to manage these risks through the use of contract-based prices with customers and derivative commodity contracts and to keep between 20% and 40% of its production on fixed prices.

The table below summarises the impact on profit before tax for changes in commodity prices on the fair value of derivative financial instruments. The impact on equity is the same as the impact on profit before income tax as these derivative financial instruments have not been designated as hedges and are classified as held-for-trading and are therefore fair valued through profit or loss.

The analysis is based on the assumption that the gold and copper prices move 10% with all other variables held constant. Reasonably possible movements in commodity prices were determined based on a review of the last two years' historical prices and economic forecasters' expectations.

	Increase/(decrease) in prices	*Effect on profit before tax for the year ended 31 December 2013 Increase/(decrease)*	*Effect on profit before tax for the year ended 31 December 2012 Increase/(decrease)*
Revenue	10%	(22,087)	3,024
	-10%	22,087	(3,024)
Cost of sales	10%	12,110	9,909
	-10%	(12,110)	(9,909)

Physical commodity contracts

The Group also enters into physical commodity contracts in the normal course of business. These contracts are not derivatives and are treated as executory contracts and are recognised and measured at cost when they occur (with the exception of those with quotational period clauses, which result in the recognition of an embedded derivative.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's cash.

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Sensitivity to changes in foreign exchange rates

2013

Currency	*Increase in foreign exchange rate, %*	*Effect on profit before tax*	*Decrease in foreign exchange rate, %*	*Effect on profit before tax*
US dollar	5.62%	(5,893,022)	-5.62%	5,893,022
Euro	10.83%	(24,533)	-10.83%	24,533
Russian ruble	10.46%	706	-10.46%	706

2012

Currency	*Increase in foreign exchange rate, %*	*Effect on profit before tax*	*Decrease in foreign exchange rate, %*	*Effect on profit before tax*
US dollar	5.49%	(2,727,247)	-5.49%	2,727,247
Euro	12.31%	(15,043)	-12.31%	15,043
Russian ruble	11.42%	14,339	-11.42%	(14,339)

(in thousands drams)

24. Financial risk management objectives and policies (continued)

Interest rate sensitivity analysis

Interest rate risk arising on loans and borrowings is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to changes in market interest rates relates primarily to the Group's long-term loans and borrowings with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and floating rate loans and borrowings. The Group is exposed to interest rate risk on loans and borrowings. The Group borrows on both a fixed and floating rate basis. The Group's outstanding interest-bearing loans and borrowings are summarized in the table below:

	2013	*2012*
At 31 December:		
Fixed-rate debt	11,593,216	10,260,226
Floating-rate debt	101,394,167	65,420,671
	112,987,383	75,680,897

Cash flow sensitivity analysis for floating rate instruments

Based on the analysis of exposures for the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax by the amounts shown below. The analysis assumes that other variables (especially currency exchange rates) remain constant.

	2013		*2012*	
	Change in interest rate in basis points	*Effect on profit before tax*	*Change in interest rate in basis points*	*Effect on profit before tax*
Liabilities denominated in USD				
Decrease in LIBOR	-3	(31,257)	-2	(13,559)
Increase in LIBOR	3	31,257	2	13,559

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Financial instruments and cash deposits

Surplus cash is placed with financial institutions which are considered at the time of deposit to have minimal risk of default.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group monitors its risk of a shortage of funds using a current liquidity planning tool. The table below summarizes the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

Year ended 31 December 2013	*On demand*	*Less than 1 year*	*1 to 2 years*	*2 to 5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	6,268,504	13,631,900	18,712,510	93,940,861	115,084,522	247,638,298
Accounts payable and accrued liabilities	2,761,002	92,683	–	–	–	**2,853,685**

Year ended 31 December 2012	*On demand*	*Less than 1 year*	*1 to 2 years*	*2 to 5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	6,214,929	6,006,029	4,282,575	21,438,630	122,460,070	**160,402,233**
Accounts payable and accrued liabilities	727,257	557,524	-	–	–	**1,284,781**

(in thousands drams)

24. Financial risk management objectives and policies (continued)

Fair value of financial instruments

The Group assessed that the fair values of cash, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Derivative assets are already carried at fair value.

The fair value of the Group's financial instruments is not materially different from their carrying value.

Fair value hierarchy

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing borrowings and loans are determined by using discounted cash flow models that use discount rates that reflect the issuer's borrowing rate as at the end of the reporting period.
- Derivatives valued using valuation techniques with market observable inputs are mainly commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models that use present value calculations. The models incorporate inputs include forward rate curves of the underlying commodity. The fair values of derivative financial instruments are disclosed in Note 5, 6.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All financial instruments measured at fair value use Level 2 valuation techniques in both years.

There have been no transfers between fair value levels during the reporting period.

Capital management

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

No changes were made in the Group's approaches to managing capital during the reporting year. The Group is not subject to externally imposed capital requirements.

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

	2013	*2012*
Total liabilities	120,458,188	80,494,597
Less: cash and cash equivalents	1,617,182	3,309,152
Net debt	118,841,006	77,185,445
Total capital	25,513,275	23,947,235
Debt-to-capital ratio as at 31 December	4.66	3.22

25. Events after the reporting period

The Group has received funding in the amount of 14,530,820 from OJSC VTB Bank in 2014 under existing loan agreement (Note 19).