Zangezur Copper Molybdenum Combine CJSC

Consolidated financial statements

For the year ended 31 December 2019
together with independent auditor's report

Contents

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Independent auditor's report

To the Shareholders and Board of Directors of
Zangezur Copper Molybdenum Combine CJSC

Opinion

We have audited the consolidated financial statements of Zangezur Copper Molybdenum Combine CJSC and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements.

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition, including related party transactions	
Revenue from sales of copper, molybdenum and ferro-molybdenum was one of the matters of most significance in our audit. We identified this as an area of focus due to the high volume of transactions involving provisionally priced contracts and complex calculations of consideration. Amount of revenue depends on changes in future commodity prices over quotational period, which requires management to exercise judgement in assessing significant provisional price estimates to be made at the end of the reporting period. For each contract management determines the performance obligations and the transaction price, and revenue is recognised proportionately as performance obligations are satisfied. In addition, significant amounts of sales are made to related parties. Information about revenue and transactions with related parties is disclosed in notes 6, 30 and 34 to the consolidated financial statements.	During our audit we performed the following procedures: ► we analysed accounting policies in respect of revenue recognition; ► we read selected contracts with customers to understand the terms of the transactions; ► we tested operating effectiveness of relevant internal controls over the revenue recognition process; ► on a sample basis, we compared transaction information in sales invoices to the contract terms and commodity prices; ► we received confirmation letters from the customers and compared sale volumes, revenue for the year and yearend balances confirmed by the customers with accounting records; ► we recalculated the amount of revenue subject to provisional pricing; ► for the sales transactions occurred immediately before and after the yearend, we analysed the period revenue relates to; ► we analysed the satisfaction of performance obligations and amount of revenue recognised under sales contracts; ► we analysed sales transactions with related parties and their disclosure in Note 34 to the consolidated financial statements; ► we analysed information about revenue disclosed in Note 6 to the consolidated financial statements.
Write down of inventories to net realizable value (NRV)	
We identified write down of inventories to NRV as one of the matters of the most significance to our audit due to the significant judgement exercised by the Group's management in identifying the slow moving and obsolete inventories and assessing the amount of write down to NRV for inventories. Such judgements include management's expectations of inventories necessary for operations and available for sale inventories. In addition, management assesses expected market demand taking into account changes in market conditions and technology, and the recent prices.	Our procedures in relation to evaluate the appropriateness of the valuation of inventories included: ► attending physical inventory counts at major locations and observing condition of inventories including analysis of cost and carrying value of items selected on a sample basis; ► understanding management's basis of the obsolete inventories identification and the projected excessive quantity of inventories estimated by the Group's management; ► testing on a sample basis the accuracy of the aging analysis of inventories used by the Group management to identify the obsolete inventories;

Key audit matter	How our audit addressed the key audit matter
Information about inventories is disclosed in Note 20 to the consolidated financial statements.	► comparing the current period write down of inventories to historical inventories write down amounts; ► recalculating the mathematical accuracy of the inventories write down to NRV, on a sample basis. ► we analyzed the disclosures in respect of inventories in the consolidated financial statements.
Interest-bearing liabilities The Group has a significant amount of interest-bearing liabilities at 31 December 2019. During the year the Group issued bonds for over AMD 26 billion with various terms and conditions. During the year the Group incurred AMD 10.2 billion in financing and interest costs of which AMD 8.8 billion has been recognised in the consolidated profit or loss statement and AMD 1.4 billion capitalised to assets under construction. Due to significance of balances of such liabilities and inherent complexity of the terms of bond issuance and loan agreements, this matter was one of the matters of most significance in our audit. Information about borrowings and related finance costs is disclosed in Notes 12, 24 and 25 to the consolidated financial statements.	Our procedures included, amongst others: ► obtaining confirmations from banks and comparing outstanding balances of liability, accrued expenses, tenure and conditions in the bank confirmations to the data reflected in the accounting systems; ► reading the borrowing agreements with the financiers to develop an understanding of the terms associated with the credit facilities; ► analysis of the classification of outstanding liability balances as current or noncurrent; ► recalculation of interest recognised in the consolidated statement of profit or loss and other comprehensive income; ► checking mathematical accuracy of capitalised borrowing costs calculation; ► analysis of the disclosures in respect of interest bearing liabilities, provided in the consolidated financial statements.
Provisions for restoration and rehabilitation The Group is involved in mining, metal refining and primary ferromolybdenum production. Given the nature of its operations, the Group incurs obligations to close, restore and rehabilitate its site. Closure and rehabilitation activities are governed by legislative requirements. Significant estimates over life of mine and reserves are made by the Group in determining its rehabilitation provision. We identified provisions for restoration and rehabilitation as one of the matters of most significance to our audit due to the uncertainty of scope and timing of such obligations and the limited amount of historical data available. Information about provisions for restoration and rehabilitation is disclosed in Notes 26 to the consolidated financial statements.	Our audit procedures in this area included, amongst others: ► analysing the estimated cost to restore and rehabilitate the land and expected moment of rehabilitation; ► evaluating the economic assumptions used in the calculation, including the discount rate, inflation rate applied to calculate the net present value of the provision; ► considered the additional damage that has taken place during the period that requires additional rehabilitation in the future ► testing the mathematical accuracy of the models used to calculate provisions; ► analysing the adequacy of the disclosures relating to provisions.

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Other information included in Group's 2019 Annual Report

Other information consists of the information included in Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Ksenia Baginian.

Ernst & Young CJSC
Yerevan, Armenia

General Director Partner (Assurance)	Eric Hayrapetyan
Partner (Assurance)	Ksenia Baginian

Yerevan, Armenia

18 May 2020

Consolidated statement of financial position
as at 31 December 2019

'000 AMD	Notes	31 December 2019	31 December 2018
Assets			
Property, plant and equipment	15	217,068,784	209,084,432
Stripping activity asset	16	5,310,400	4,090,780
Inventories	20	13,156,653	12,469,763
Intangible assets	27	393,104	408,203
Equity investments at fair value through profit or loss	17	777,159	877,159
Prepayments for non-current assets	18	1,879,578	3,352,442
Loans given	19	274,901	5,573,313
Input VAT		292,084	944,875
Trade and other receivable		50	-
Other non-current assets		193,448	51,000
Non-current assets		**239,346,161**	**236,851,967**
Inventories	20	24,099,861	20,431,684
Other prepaid taxes		379,801	392,188
Input VAT		2,026,389	3,396,316
Deferred VAT		461,305	525,279
Trade and other receivables	21	9,919,327	9,600,820
Prepayments for current assets	18	7,079,322	6,805,004
Loans given	19	9,851,274	3,341,837
Financial assets at fair value through profit or loss		–	254,868
Cash and cash equivalents	22	5,462,981	525,227
Other current assets		1,450	1,611
Current assets		**59,281,710**	**45,274,834**
Total assets		**298,627,871**	**282,126,801**
Equity			
Share capital	23	54,966,680	54,966,680
Treasury shares	23	(41,225,060)	–
Retained earnings		2,539,512	51,016,078
Total equity		**16,281,132**	**105,982,758**
Liabilities			
Issued bonds	24	24,176,835	–
Loans and borrowings	25	33,139,355	23,757,102
Provisions	26	3,267,194	3,236,671
Lease liabilities	29	2,153,015	2,138,218
Contract liabilities	30	9,656,580	39,157,288
Deferred tax liabilities	14	10,964,709	12,978,254
Liabilities for shares repurchased	23	19,116,375	–
Other financial liabilities	30	41,283,566	-
Non-current liabilities		**143,757,629**	**81,267,533**
Issued bonds	24	2,070,073	–
Loans and borrowings	25	48,943,932	43,591,519
Financial liabilities at fair value through profit or loss	27	394,870	–
Provisions	26	332,277	406,804
Lease liabilities	29	936,873	927,246
Contract liabilities	30	19,198,586	22,809,090
Income tax payable		1,346,896	–
Royalty payables		3,540,215	1,939,170
Liabilities for shares repurchased	23	24,006,496	–
Trade and other payables	28	28,733,855	25,202,681
Other financial liabilities	30	9,085,037	-
Current liabilities		**138,589,110**	**94,876,510**
Total liabilities		**282,346,739**	**176,144,043**
Total equity and liabilities		**298,627,871**	**282,126,801**

Signed and authorised for release on behalf of the Management of the Group on 18 May 2020.

Mger Poloskov
General Director

Vardan Marutyan
Chief Accountant

The accompanying notes 1-38 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2019

'000 AMD	*Notes*	*2019*	*2018*
Revenue from contracts with customers	6	195,827,666	199,900,935
Cost of sales	7	(130,972,416)	(103,087,295)
Gross profit		**64,855,250**	**96,813,640**
Distribution expenses	8	(12,638,613)	(10,252,977)
Administrative expenses	9	(14,945,937)	(14,339,312)
Donations to social programs	10	(6,508,522)	(7,900,100)
Other operating income	11	761,354	1,333,215
Other operating expenses	11	(30,936,246)	(32,353,872)
Allowance for expected credit loss	19, 21	257,970	(394,771)
Operating profit		**845,256**	**32,905,823**
Net (loss)/ gain from financial instruments at fair value through profit or loss	27	(666,683)	3,093,339
Gain on investment at fair value through profit or loss	1715	72,373	65,793
Finance income	12	810,670	514,796
Finance costs	12	(8,852,826)	(12,395,745)
Net foreign exchange gain		639,785	88,079
(Loss)/ profit before income tax		**(7,151,425)**	**24,272,085**
Income tax expense	14	(7,411,287)	(8,733,843)
(Loss)/ profit for the year		**(14,562,712)**	**15,538,242**
Other comprehensive income		–	–
Total comprehensive (loss)/ income		**(14,562,712)**	**15,538,242**

Consolidated statement of changes in equity

for the year ended 31 December 2019

'000 AMD	*Share capital (Note 23)*	*Treasury shares (Note 23)*	*Retained earnings*	*Total equity*
Balance at 1 January 2018	**54,966,680**	**–**	**35,477,836**	**90,444,516**
Total comprehensive income for the year	–	–	15,538,242	**15,538,242**
As at 31 December 2018	**54,966,680**	**–**	**51,016,078**	**105,982,758**
Balance at 1 January 2019	**54,966,680**	**–**	**51,016,078**	**105,982,758**
Repurchase of shares	–	(41,225,060)	(33,913,854)	**(75,138,914)**
Total comprehensive loss for the year	–	–	(14,562,712)	**(14,562,712)**
As at 31 December 2019	**54,966,680**	**(41,225,060)**	**2,539,512**	**16,281,132**

The accompanying notes 1-38 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2019

'000 AMD	*Notes*	*2019*	*2018*
Operating activities			
Receipts from sales, inclusive of VAT		200,141,636	218,298,208
Payments to suppliers, inclusive of VAT		(132,518,224)	(124,965,235)
Payments to employees, net of personal income tax		(26,281,337)	(20,463,853)
Settlement of financial instruments at fair value through profit or loss		107,310	(4,563,573)
Income tax paid		(8,961,639)	(15,690,502)
Payments for taxes other than on income		(9,847,656)	(5,240,781)
Royalty paid		–	(12,970,001)
Donations to social programs		(6,267,475)	(5,433,720)
Interest paid on long-term advances received		(708,431)	(2,434,340)
Banks charges and conversion losses		(158,882)	(1,214,734)
Other receipts		4,161,804	1,859,844
Other payments		(6,432,088)	(3,156,122)
Net cash from operating activities		**13,235,018**	**24,025,191**
Investing activities			
Expenditure on property, plant and equipment and stripping activity asset		(21,379,759)	(18,654,085)
Proceeds from disposal of property, plant and equipment		531,263	1,599
Loans provided		(8,451,441)	(797,326)
Repayment of loans and borrowings provided		8,090,006	–
Interest received		33,851	48,985
Income from Artsakh HEK shares		172,373	117,115
Net cash used in investing activities		**(21,003,707)**	**(19,283,712)**
Financing activities			
Proceeds from loans and borrowings	31 d	224,302,342	212,025,762
Repayments of loans and borrowings	31 d	(199,771,716)	(215,820,449)
Payment for shares repurchased		(31,047,068)	–
Proceeds from bonds issued		26,368,872	–
Payment of principal portion of lease liabilities	29	(961,063)	–
Interest paid on lease liabilities		(307,601)	–
Interest paid, including related withholding tax		(5,392,876)	(5,523,837)
Net cash received from/ (used in) financing activities		**13,190,890**	**(9,318,524)**
Net increase/(decrease) in cash and cash equivalents		**5,422,201**	**(4,577,045)**
Cash and cash equivalents at 1 January	21	525,227	5,678,570
Net foreign exchange difference		(484,447)	(576,298)
Cash and cash equivalents at 31 December	21	**5,462,981**	**525,227**

The accompanying notes 1-38 form an integral part of these consolidated financial statements.

1. Background

a) Corporate information

Zangezur Copper Molybdenum Combine CJSC (the “Company”) and its subsidiary Ler-Ex LLC (the “Subsidiary”), forming the Group (the “Group”), are Armenian closed joint stock company and limited liability company as defined in the Civil Code of the Republic of Armenia. The Company was established as a state-owned enterprise in 1952. It was privatised as a closed joint stock company on 1 January 2005 according to Government decree No. 1677-A dated 9 December 2004.

The Company’s registered office and actual location where principal activities are carried is 18 Lernagortzneri street, Kajaran, Syunik region, Republic of Armenia.

The Group’s principal activity is mining and the production of copper and molybdenum concentrate. Finished goods are sold in the form of copper concentrate and ferro-molybdenum. The Group’s operations are regulated by the License agreements between the Group and the Ministry of Energy Infrastructures and Natural Resources (the “License Agreements”). According to the License Agreements, the Group’s operations are licensed until 2041.

During 2019 the Group repurchased its shared held by Cronimet Mining AG (60%) and Plant of Pure Iron OJSC (15%) (99.3% ultimately owned by Cronimet Holding GmbH). As at 31 December 2019 the shares are hold by AMP Holding LLC (12.5%) and Zangezur Mining LLC (12.5%) (the “Shareholders”).

As of 31 December 2018 Company was controlled by Günter Pilarsky.After repurchase of shares as of 31 December 2019 Company does not have ultimate controlling shareholder.

Related party transactions are disclosed in Note 34.

b) Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. 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 believes that it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

The recent outbreak of Coronavirus, a virus causing potentially deadly infections and spreading in various jurisdictions, may negatively affect economic conditions regionally and globally, disrupt operations situated in countries exposed to the contagion and affect demand and supply chains or otherwise impact Company’s business.

The health and safety of our employees and partners is top priority for the Company and Management took measures to minimise the health risks. The full impact of Corona virus outbreak on Company’s business is unclear yet and Management is monitoring situation closely.

2. Basis of preparation

a) Overview

The consolidated 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 consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, derivative financial instruments have been measured at fair value.

Certain prior year amounts and disclosures have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

b) Subsidiaries

The following subsidiaries are included in the consolidated financial statements of the Group:

Subsidiary	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*
Ler-Ex LLC	100%	Kapan, Armenia	Republic of Armenia	Mining

2. Basis of preparation (continued)

c) Liquidity position

As at 31 December 2019 the Group's current liabilities exceeded its current assets by AMD 79,307,400 thousand (2018: AMD 49,601,676 thousand).

The Management have reviewed the Group's budgeted cash flows and related assumptions including appropriate stress testing of risks (being primarily copper demand and prices). As a result, the Management have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future.

The Group has obtained additional long-term financing in subsequent period. The management believes that liquidity gap will further improve during upcoming periods.

d) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group companies' functional currency and the currency in which these consolidated financial statements are presented.

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All differences are taken to the statement of profit or loss and other comprehensive income. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

All financial information is presented in thousands AMD, unless otherwise indicated. The official Central Bank of Armenia (CBA) exchange rates at 31 December 2019 and 31 December 2018 were 479.7 AMD and 483.75 AMD to 1 USD, 537.26 AMD and 553.65 AMD to 1 EUR respectively.

e) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the measuring fair values is included in Note 32.

3. Basis of consolidation

The consolidated financial statements comprise the financial statements of Zangezur Copper Molybdenum Combine CJSC and its subsidiary as at 31 December 2019. A subsidiary is an entity controlled by the Group.

Control exists 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.

3. Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. 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 relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.

The Group re-assesses 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 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. Where the Group's interest is less than 100 per cent, the interest attributable to outside shareholders is reflected in non-controlling interests (NCIs).

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 NCIs, 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 in line with the Group's accounting policies. All intra-group 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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. Significant accounting judgments, estimates and assumptions

a) Use of judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, 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 a number of areas where significant judgments, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described with the associated accounting policy note within the related qualitative and quantitative note as described below. These include:

Judgments

- Note 16 "Stripping activity asset";
- Note 2 (d) "Functional currency";
- Note 38 (c) "Recognition of revenue";
- Note 38 (h) "Income tax";
- Note 38 (c) Principal versus agent considerations;
- Note 38 (c) Consideration of significant financing component in a contract;
- Note 38 (q) Group as lessee.

4. Significant accounting judgements, estimates and assumptions (continued)

a) Use of judgments, estimates and assumptions (continued)

Estimates and assumptions

- Note 11 “Other expenses” − royalty estimation.
- Note 3 (b) “Ore reserves” − valuation of mineral reserves that are the basis for future cash flow estimates;
- Note 38 (k) “Property, plant and equipment” − determination of units of production depreciation calculations;
- Note 38 (k) “Property, plant and equipment” − useful lives of property, plant and equipment;
- Note 26 (a) “Provisions”;
- Note 38 (a) “Recoverability of assets – impairment of non-financial assets”;
- Note 38 (j) “Inventories”;
- Note 38 “Financial instruments and risk management” − fair values of financial instruments;
- Note 38 – Estimating stand-alone selling price (services);
- Note 21 “Trade and other receivables” – impairment of trade and other receivables.

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 or in the related accounting policy note (see list above for references). 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 reserves and exploitation license

Ore reserves and mineral resource estimates are estimates of the amount of ore that can be economically and legally extracted from the Group’s mining properties. Such reserves and mineral resource estimates and changes to these may impact the Group’s reported consolidated financial position and results, in the following way:

- The carrying value of property, plant and equipment, stripping activity asset, exploration and evaluation assets, may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the UOP method, or where the useful life of the related assets change;
- Capitalised stripping costs recognised in the statement of financial position as either part of property, plant and equipment, other non-current assets or inventory or charged to profit or loss may change due to changes in stripping ratios;
- Provisions for site restoration and environmental provisions may change where reserve estimate changes 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 judgments regarding the existence of such assets and in estimates of the likely recovery of such assets.

The Group operates under a License which expires in 2041, in accordance with License Agreement No. PV-232 dated 27 November 2012. In preparing these consolidated financial statements management has assumed that the License will be prolonged beyond 2041. This assumption is based on the provisions of the Mining Code which state that the License can be prolonged based on submitted application. Further, the Group obtained JORC compliant mineral resource estimate report NI43-101 as of October 2015, issued by Golder Associates.

The Group uses the above estimates in evaluating the timing of site restoration costs, useful lives and impairment of property, plant and equipment, stripping activity asset and exploration and evaluation asset.

5. Segment information

The Group's principal activity is mining and the production of copper and molybdenum concentrate. All of the Group's assets and operations are located in Syunik province, Armenia. The Group has no non-current assets outside Armenia.

For management purposes, the Group is organised into business units based on the main types of activity and has one reportable operating segment:

- The segment develops and mines copper and molybdenum concentrate.

The Board of the Group monitors the operating results of the only business unit for the purpose of making decisions about resource allocation and performance assessment and is considered to be the Group's Chief Operating Decision Maker.

Revenue per type of products and services rendered is presented in Note 6 and the concentration per customers is presented in Note 31. Revenues from sale of concentrates and ferro-molybdenum comprised 98% of total revenue with customers (2018: 97%).

6. Revenue from contracts with customers

'000 AMD	*2019*	*2018*
Revenue from sale of copper concentrate	123,909,829	134,067,520
Revenue from sale of ferro-molybdenum	66,157,603	60,090,531
Revenue from freight/shipping services of copper concentrate	4,168,670	3,552,742
Revenue from the sale of molybdenum concentrate	1,486,907	−
Revenue from provided stripping services	−	2,086,000
Revenue from sale of other products	104,657	104,142
	195,827,666	**199,900,935**

During 2019 a contract cancelation fee (Note 30) in the amount of AMD 21,199,155 thousand was allocated to the Revenue from contracts with customers, by deducting revenue from sale of copper concentrate (2018: nill).

Revenues from sale of concentrates and ferro-molybdenum:

	2019		*2018*	
	'000 AMD	*Dry metric tonnes*	*'000 AMD*	*Dry metric tonnes*
Copper concentrate	123,909,829	302,674	134,067,520	242,871
Ferro-molybdenum	66,157,603	8,851	60,090,531	6,980
Molybdenum concentrate	1,486,907	383	−	−
	191,554,339		**194,158,051**	

All revenue from copper concentrate and ferro-molybdenum is recognised at a point in time when control transfers (Note 33) and revenue from freight/shipping services is recognised over time as the services are provided.

At 31 December 2019 the Company had outstanding provisionally priced sales of AMD 21,692,936 thousand consisting of 30,277 dry metric tonnes of copper concentrate, 513 dry metric tonnes of ferro-molybdenum and 104 dry metric tonnes of molybdenum Concentrate (2018: AMD 22,805,390 thousand consisting of 18,561 dry metric tonnes of copper concentrate, 893 dry metric tonnes of ferro-molybdenum) which had a fair value of approximately AMD 22,391,338 thousand (2018: AMD 22,336,268 thousand).

7. Cost of sales

'000 AMD	*2019*	*2018*
Cost of sales of copper, molybdenum concentrate and ferro-molybdenum	130,435,131	102,210,290
Cost of provided stripping services	–	649,266
Cost of other sales	537,285	227,739
	130,972,416	**103,087,295**

Cost of sales of concentrates and ferro-molybdenum:

'000 AMD	*2019*	*2018*
Materials	43,969,205	30,510,915
Wages and salaries	25,205,361	17,312,329
Outsourced services	17,577,603	19,831,873
Tolling costs	16,057,261	13,230,281
Depreciation	14,648,587	10,555,435
Electricity and gas	12,462,773	10,386,107
Ecology taxes	69,931	49,483
Other	444,410	333,867
	130,435,131	**102,210,290**

Cost of provided stripping services expenses include indirect payroll expenses in the amount of nil (2018: AMD 115,000 thousand) (see Note 13) and depreciation expenses in the amount of nil (2018: AMD 63,334 thousand) (see Note 15).

8. Distribution expenses

'000 AMD	*2019*	*2018*
Transportation of copper concentrate	11,205,413	8,877,543
Transportation of molybdenum concentrate	308,950	241,862
Packaging, sorting and maintenance	223,207	224,982
Other	901,043	908,590
	12,638,613	**10,252,977**

Packaging, sorting and maintenance expenses include indirect payroll expenses in amount of AMD 169,957 thousand (2018: AMD 122,207 thousand) (see Note 11).There is no depreciation expense included in packaging, sorting and maintenance expenses in 2019 (2018: nil) (see Note 13).

Distribution expenses include cost of concentrate freight/ shipping services provided by the Group to its customers in the amount of AMD 3,821,401 thousand (2018: AMD 2,740,148 thousand. Under IFRS 15, it has been concluded that the provision of these services represents separate performance obligation and Group acts as principal.

9. Administrative expenses

'000 AMD	*2019*	*2018*
Wages and salaries	6,779,594	5,115,737
Transportation and car maintenance services	2,512,309	2,254,118
Insurance cost and bank charges	799,595	723,494
Depreciation, amortisation and maintenance expenses	741,676	341,093
Office, utility and communication expenses	647,682	431,466
Geological studies and research	586,092	1,397,077
Business trips, trainings, and representative expenses	584,988	383,224
Audit, consulting and other professional services	581,073	1,715,438
Hedging commission fee	374,156	161,354
Lease expenses	120,838	455,623
Guarantee expense	–	25,827
Other	1,217,934	1,334,861
	14,945,937	**14,339,312**

Transportation and car maintenance service expenses include indirect payroll expenses in amount of AMD 121,259 thousand (2018: AMD 559,481 thousand) (see Notes 11) and depreciation expenses in amount of AMD 358,927 thousand (2018: AMD 324,706 thousand) (see Note 13). In 2019 lease expenses represent lease payments on short-term leases and leases of low-value assets.

10. Donations to social programs

'000 AMD	*2019*	*2018*
Donations in cash	6,014,365	5,203,683
Non-cash donations	494,157	2,696,417
	6,508,522	**7,900,100**

The Group makes contributions to different social programs and institutions involving the community.

11. Other income and other expenses

'000 AMD	*2019*	*2018*
Gain from inventory sale	264,469	215,524
Reimbursed WHT	50,024	–
Reversal of prepayment impairment provision	46,572	–
Income from lease	24,875	149,250
Change in provision estimate	23,949	38,055
Income from scraped inventories	–	438,329
Income from construction services	–	235,455
Other income	351,465	256,602
Other income	**761,354**	**1,333,215**

'000 AMD	*2019*	*2018*
Royalty expense*	22,556,260	20,566,081
Fines and penalties	2,901,113	10,299
Lease expenses	1,014,000	507,000
Wages	869,555	2,462,701
Employee benefits other than salary	549,088	804,819
Depreciation	484,574	569,711
Taxes other than on income	377,163	730,620
Write-down of inventories	150,319	332,343
Loss on disposal of property and equipment	116,138	525,496
Materials	108,992	–
Impairment of E&E assets	–	2,438,081
Write-off of mining facilities (Note 15)	–	1,845,992
Prepayments write off	–	1,190,513
Site restoration provision	–	230,740
Other	1,809,044	139,476
Other expenses	**30,936,246**	**32,353,872**

* Royalty expense consists of two components:

- Royalty calculated at 4% of revenue of AMD 8,711,526 thousand (2018: AMD 8,703,905 thousand);
- Royalty calculated as 12.5% of taxable income of AMD 13,844,734 thousand (2018: AMD 11,862,176 thousand).

Both revenue and taxable income are adjusted as per the guidelines and requirements in the applicable laws and regulations.

The Group has suspended the production process and exploration works in the area near Hankasar mine and based on Management's decision exploration and evaluation assets in the amount of AMD 2,438,081 thousand were written off in 2018.

Lease expenses in 2019 represent lease payments on short-term leases and leases of low-value assets.

12. Finance income and finance costs

'000 AMD	*2019*	*2018*
Interest income from loans given	776,820	465,810
Interest income on bank accounts	33,850	48,986
Finance income	**810,670**	**514,796**
Interest expense on issued bonds, loans and borrowings	(5,939,227)	(10,163,140)
Interest expense on advances received for provisionally priced sales	(1,904,067)	(1,570,299)
Unwinding of discount on site restoration provision and provision for termination benefits (Note 26)	(337,763)	(332,407)
Interest on finance lease	(307,600)	–
Other interest expenses	(364,169)	(329,899)
Finance costs, recognised in profit or loss	**(8,852,826)**	**(12,395,745)**
Borrowing costs capitalized during the period (Note 15)	(1,406,100)	(2,286,352)

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation in 2019 was 8.92% (2018: 12.72%). The capitalisation rate was estimated as the weighted average of the borrowing costs applicable to the borrowings of the Group that were outstanding as at end of the period.

13. Personnel costs

'000 AMD	*2019*	*2018*
Wages and salaries	37,427,473	29,280,293
Employee benefits other than salary (Note 11)	549,088	804,819
	37,976,561	**30,085,112**

Wages and salaries in the amount of AMD 25,205,361 thousand were charged to cost of sales (2018: AMD 17,427,329 thousand), AMD 169,957 thousand to distribution expenses (2018: AMD 122,207 thousand), AMD 6,779,594 thousand to administrative expenses (2018: AMD 5,675,218 thousand), AMD 869,555 thousand to other expenses (2018: AMD 2,462,701 thousand), AMD 1,471,628 thousand was capitalized on construction in progress (2018: AMD 1,158,131 thousand), 813,255 AMD thousand was capitalized on finished goods and inventories (2018: AMD 627,293 thousand), AMD 1,709,811 thousand was capitalized on non-current inventories − ore stockpiles (2018: AMD 1,683,754 thousand), AMD 408,312 thousand (2018: AMD 123,660 thousand) were included in provided digging services.

14. Income tax expense

a) Amounts recognised in profit or loss

The corporate income tax expense comprises:

'000 AMD	*2019*	*2018*
Income tax expense	10,308,537	11,203,277
Deferred tax credit – origination and reversal of temporary differences	(2,897,250)	(2,469,434)
Income tax expense	**7,411,287**	**8,733,843**

The Group's applicable tax rate is the income tax rate of 20% for Armenian companies for 2019 and 2018.

Starting 1 January 2020, corporate income tax is to be decreased by two percentage points to 18%. The rate is to be applied to the calculation of income tax attributable to 2020 and reporting periods succeeding it.

14. Income tax expense (continued)

a) Amounts recognised in profit or loss (continued)

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

'000 AMD	*2019*	*2018*
(Loss)/ profit before income tax	**(7,151,426)**	**24,272,085**
Statutory tax rate	20%	20%
Income tax expense at applicable tax rate	**(1,430,285)**	**4,854,417**
Non-deductible expenses		
Change in tax base of property, plant and equipment due to tax legislation changes	(75,335)	(1,285,782)
Correction of tax base of advances received due to change in tax legislation	–	180,708
Adjustments in respect of change in income tax rate	(1,120,116)	–
Change in unrecognized deductible temporary differences and tax losses	171,134	76,390
Other non-deductible expenses	9,865,889	4,908,110
	7,411,287	**8,733,843**

b) Movement in temporary differences during the year

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	1 January 2018	*Restatement of balances (application of IFRS 9, IFRS 15)*	*Origination and reversal of temporary differences*	*31 December 2018*	*Origination and reversal of temporary differences*	*Adjustments in respect of change in income tax rate*	*Effect of transaction with own shares recognised in Equity*	*31 December 2019*
Deductible temporary differences								
Financial liabilities at fair value through profit or loss	–	–	–	–	71,076	(7,897)	–	71,076
Trade and other receivables	–	258,494	(114,399)	144,095	(81,314)	(6,976)	–	62,781
Prepayments for current assets	–	–	44,397	44,397	(12,823)	(3,508)	–	31,574
Contract liabilities	–	–	–	–	245,468	(27,274)	–	245,468
Finance lease liabilities	–	–	–	–	554,074	(61,564)	–	554,074
Loans given	–	–	35,500	35,500	14,523	(5,558)	–	50,023
Provision of site restoration	562,971	–	22,569	585,539	(16,102)	(63,271)	–	569,437
Deferred tax asset	**562,971**	**258,494**	**(11,933)**	**809,531**	**774,902**	**(176,048)**	**–**	**1,584,433**
Deductible temporary differences								
Property, plant and equipment	(16,674,613)	–	2,221,183	(14,453,431)	3,746,947	1,189,609	–	(10,706,484)
Exploration and evaluation asset	(90,857)	–	90,857	–	–	–	–	–
Advances received for provisionally prices sales	(201,220)	–	201,220	–	–	–	–	–
Loans and borrowings	(736,072)	–	641,643	(94,430)	(47,598)	15,781	–	(142,028)
Inventories	152,317	–	123,833	276,150	(365,228)	9,897	–	(89,078)
Trade and other payables	(146,887)	–	681,784	534,896	(587,048)	5,795	–	(52,152)
Stripping assets	–	–	–	–	(132,428)	14,714	–	(132,428)
Right of use assets	–	–	–	–	(543,267)	60,368	–	(543,267)
Repurchased shares payable	–	–	–	–	–	–	(883,705)	(883,705)
Financial assets at fair value through profit or loss	1,428,178	–	(1,479,152)	(50,970)	50,970	–		–
Deferred tax liability	**(16,269,154)**	**–**	**2,481,368**	**(13,787,785)**	**2,122,348**	**1,296,164**	**(883,705)**	**(12,549,142)**
Net deferred tax liability	**(15,706,183)**	**258,494**	**2,469,435**	**(12,978,254)**	**2,897,250**	**1,120,116**	**(883,705)**	**(10,964,709)**

14. Income tax expense (continued)

c) Unrecognized deferred tax assets

	1 January 2018	*Origination and reversal of temporary differences*	*31 December 2018*	*Origination and reversal of temporary differences*	*31 December 2019*
Tax losses carried forward	612,865	(503,373)	109,492	42,200	151,692
Property, plant and equipment	279,890	383,798	663,688	(228,877)	434,811
Inventories	5,382	(1,145)	4,237	16,352	20,589
Provision for site restoration	1,645	44,330	45,975	(809)	45,166
Deferred tax asset	**899,782**	**(76,390)**	**823,392**	**(171,134)**	**652,258**
Unrecognized deferred tax	**(899,782)**		**(823,392)**		**(652,258)**

The temporary differences associated with investments in subsidiary, for which a deferred income tax asset has not been recognised, aggregate to AMD 652,258 thousand (2018: AMD 823,392 thousand).

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of deductible temporary differences and tax losses of the Subsidiary because it is uncertain whether future taxable profit will be available against which the Subsidiary can utilize the benefits therefrom.

15. Property, plant and equipment

'000 AMD	*Land and buildings*	*Plant and equipment*	*Mining facilities*	*Fixtures and fittings*	*Construction in progress*	*Right-of-use assets (Notes 29, 35)*	*Total*
Cost							
At 1 January 2018	**71,697,919**	**186,130,314**	**2,253,902**	**895,145**	**50,183,365**	**–**	**311,160,645**
Additions	356,777	16,160,696	–	216,928	15,152,028	–	**31,886,429**
Disposals	(511,515)	(2,093,003)	–	(51,601)	(767,277)	–	**(3,423,396)**
Impairment	–	–	(1,991,730)	–	–	–	**(1,991,730)**
Transfers	835,061	5,063,173	–	–	(5,898,234)	–	**–**
At 31 December 2018	**72,378,242**	**205,261,180**	**262,172**	**1,060,472**	**58,669,882**	**–**	**337,631,948**
At 1 January 2019	**72,378,242**	**202,099,002**	**262,172**	**1,060,472**	**58,669,882**	**4,050,952**	**338,520,722**
Additions	564,252	13,753,917	–	285,254	9,803,803	–	**24,407,226**
Disposals	(19,869)	(1,701,469)	(5,550)	(30,713)	(114,317)	–	**(1,871,918)**
Transfers	1,122,276	1,560,659	–	6,967	(2,689,902)	–	**–**
At 31 December 2019	**74,044,901**	**215,712,109**	**256,622**	**1,321,980**	**65,669,466**	**4,050,952**	**361,056,030**
Depreciation							
At 1 January 2018	**(17,556,092)**	**(98,466,976)**	**(174,456)**	**(669,417)**	**–**	**–**	**(116,866,941)**
Depreciation charge for the year	(2,043,939)	(11,554,918)	(35,769)	(116,564)	–	–	**(13,751,190)**
Disposals	240,006	1,632,307	–	52,564	–	–	**1,924,877**
Impairment	–	–	145,738	–	–	–	**145,738**
At 31 December 2018	**(19,360,025)**	**(108,389,587)**	**(64,487)**	**(733,417)**	**–**	**–**	**(128,547,516)**
At 1 January 2019	**(19,360,025)**	**(108,389,587)**	**(64,487)**	**(733,417)**	**–**	**–**	**(128,547,516)**
Depreciation charge for the year	(2,245,968)	(13,497,766)	(14,035)	(109,705)	–	(1,021,480)	**(16,888,954)**
Disposals	2,615	1,418,618	1,768	26,223	–	–	**1,449,224**
At 31 December 2019	**(21,603,378)**	**(120,468,735)**	**(76,754)**	**(816,899)**	**–**	**(1,021,480)**	**(143,987,246)**
Net book value							
At 31 December 2018	**53,018,217**	**96,871,593**	**197,685**	**327,055**	**58,669,882**	**–**	**209,084,432**
At 31 December 2019	**52,441,523**	**95,243,374**	**179,868**	**505,081**	**65,669,466**	**3,029,472**	**217,068,784**

15. Property, plant and equipment (continued)

Depreciation expense in the amount of AMD 14,648,587 thousand (2018: AMD 10,555,435 thousand) was charged to cost of sales, AMD 23,827 to donations to social programs in 2019 (2018: nil), AMD 598,944 thousand (2018: AMD 665,799 thousand) to administrative expenses, AMD 484,574 thousand (2018: AMD 569,711 thousand) to other expenses, AMD 628,168 thousand (2018: AMD 1,067,801 thousand) was capitalised on non-current inventories – ore stockpiles, AMD 120,686 thousand (2018: AMD 509,035 thousand) was capitalised on construction in progress, AMD 384,168 thousand (2018: AMD 383,409 thousand) thousand was capitalized on finished goods and inventories.

During 2019 wages and salaries of AMD 1,471,628 thousand were capitalized on construction in progress (2018: AMD 1,158,131 thousand) (see Note 12).

During 2019 borrowing costs of AMD 1,406,100 thousand (2018: AMD 586,972 thousand) were capitalized on construction in progress.

During 2019 changes in estimate of site restoration provision of 80,245 AMD thousand (2018: AMD 2,286,352 thousand) were capitalized on related property, plant and equipment (see Note 26).

At 31 December 2019 property, plant and equipment with a carrying amount of AMD 56,701,055 thousand are pledged as security for secured bank loans (see Note 23).

At 31 December 2019 the gross book value of fully depreciated property, plant and equipment, which are in use, amounted AMD 62,022,629 thousand (2018: AMD 56,705,110 thousand).

The Subsidiary has suspended the production process and exploration works in the area near Hankasar mine. In 2018 the Management of the Subsidiary decided to close the mine and concentrate its operation of providing services to the Company. Based on this decision Subsidiary has written off mining facilities in the amount of AMD 1,845,992 thousand in 2018.

16. Stripping activity asset

In 2014, The Group started intensive stripping activities in Shlorkut site of Kajaran mine from which the extraction of ore is planned in the coming years and capitalized the pre-production stripping costs as stripping activity asset in the amount of AMD 5,310,400 thousand.

During 2019, the additional stripping activities were performed area, and expenses were capitalized in the amount of AMD 1,219,620 thousand. The area is not yet available for extraction.

17. Equity investments at fair value through profit or loss

'000 AMD	*2019*	*2018*
Investments at fair value through profit or loss		
Artsakh HEK OJSC	777,159	877,159
	777,159	**877,159**

At 31 December 2019 the Group's investment in Artsakh HEK OJSC's equity ("AHEK") was 5.7% (2018: 6.18%).

The shares are listed in Armenia Securities Exchange OJSC. The fair value of investment was determined by using discounted cash flows techniques which is classified as Level 3 in fair value hierarchy, refer to Note 31.

During 2019 the Group recognised dividend income from Artsakh HEK OJSC in the amount of AMD 72,373 thousand (2018: AMD 65,793 thousand).

18. Prepayments

'000 AMD	*2019*	*2018*
Prepayments for non-current assets		
Prepayments for property, plant and equipment	1,389,936	2,864,177
Other non-current prepayments	489,642	488,265
	1,879,578	**3,352,442**
Prepayments for current assets		
Prepayments for inventory	4,149,829	4,174,620
Prepayments for services	2,916,232	2,131,129
Other	13,261	499,255
	7,079,322	**6,805,004**
	8,958,900	**10,157,446**

During period ended 31 December 2019 previously written-off prepayments in amount AMD 46,571 thousand were recovered. During 2018 prepayments in the amount of AMD 1,190,513 thousand were written-off.

19. Loans given

In January 2018 the Group concluded an agreement with Cronimet Mining AG on providing loans with total amount of USD 19,300 thousand, with an interest rate at 1m USD-LIBOR+4.95% per annum and with maturity in December 2020. The total carrying amount of the loans given as at 31 December 2019 is AMD 10,126,175 thousand (2018: AMD 8,915,150 thousand).

Cronimet Mining AG is no longer parent company of the ZCMC CJSC as at 31 December 2019. The Group's exposure to currency and interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 31.

As of 31 December 2019, the Group has provided loans to three counterparties in AMD and USD with Interest rates ranging from Libor +4.95% to 8%. Loans mature in 2020.

	Stage 1 AMD'000	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
Expected credit loss allowance as at 31 December 2019	**171,527**	**106,376**	**–**	**277,903**
Provision for expected credit losses	(5,424)	106,376	–	**100,952**
Expected credit loss allowance as at 31 December 2018	**177,498**	**–**	**–**	**177,498**
Provision for expected credit losses	177,498	–	–	**177,498**
Expected credit loss allowance as at 1 January 2018	**–**	**–**	**–**	**–**

20. Inventories

'000 AMD	*2019*	*2018*
Spare parts (at lower of cost and net realisable value)	11,597,426	8,309,876
Raw materials and consumables (at lower of cost and net realisable value)	6,397,823	4,984,650
Molybdenum concentrate given for processing* (at cost)	2,260,533	2,540,296
Finished goods (at lower of cost and net realisable value)	1,436,223	2,676,212
Work in progress (at cost)	783,624	–
Construction materials (at lower of cost and net realisable value)	222,382	218,382
Other (at lower of cost and net realisable value)	1,401,850	1,702,268
Total current inventories	**24,099,861**	**20,431,684**
Non-current inventories – ore stockpiles** (at cost)	13,156,653	12,469,763
Total inventories at the lower of cost and net realizable value	**37,256,514**	**32,901,447**

* The Group has service agreements signed with related parties for processing of molybdenum concentrate to ferro-molybdenum. The ownership during the processing is retained by the Group. The corresponding tolling expense for services received is presented in Note 7.

** Non-current inventories represent low grade ore that cannot be economically processed at current market prices and are stockpiled with the expectation that it will be processed.

20. Inventories (continued)

Wages and salaries of AMD 813,255 thousand (2018: AMD 627,293 thousand) (see Note 13) and depreciation of AMD 384,168 thousand (2018: AMD 383,409 thousand) (see Note 15) are capitalized on the balance of current inventories and finished goods. Wages and salaries of AMD 1,709,811 thousand (2018: AMD 1,683,754 thousand) (see Note 13) and depreciation of AMD 628,168 thousand (2018: AMD 1,067,801 thousand) are capitalized on the balance of non-current inventories − ore stockpiles (see Note 16).

During 2019 372,736 AMD thousand (2018: AMD 332,343 thousand) was recognised as a write-down expense for inventories carried at net realisable value in other expenses (see Note 11).

21. Trade and other receivables

'000 AMD	*2019*	*2018*
Trade receivables (not subject to provisional pricing)	8,159,081	8,816,361
Other receivables	452,958	558,158
Trade and other receivables at amortised cost	**8,612,039**	**9,374,519**
Allowance for expected credit losses	(337,289)	(697,150)
	8,274,750	**8,677,369**
Trade receivables (subject to provisional pricing) – at fair value	1,644,577	923,451
Total trade and other receivables	**9,919,327**	**9,600,820**

Trade receivables (not subject to provisional pricing) are non-interest-bearing and are generally on terms of up to 1 year.

Trade receivables (subject to provisional pricing) are non-interest bearing, but as discussed in Note 37, are exposed to future commodity price movements over the quotational period (QP) and, hence, fail the "solely payments of principal and interest" (SPPI) test and are measured at fair value up until the date of settlement.

These trade receivables are initially measured at the amount which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the QP. Approximately 90% of the provisional invoice (based on the provisional price (calculated as the average price in the week prior to delivery for copper and the average price in the month prior to delivery for molybdenum) is received in cash when the goods are loaded onto the ship, which reduces the initial receivable recognised under IFRS 15. The QPs can range between one and two months post shipment and final payment is due between 30-60 days from the end of the QP. Refer Note 31 for details of fair value disclosures.

Set out below is the movements in the allowance for expected credit losses of trade receivables (not subject to provisional pricing):

'000 AMD	*2019*
At 1 January 2019	**(697,150)**
Assets originated	(27,425)
Repaid amount	387,286
At 31 December 2019	**(337,289)**

'000 AMD	*2018*
At 1 January 2018	**(479,877)**
Assets originated	(223,514)
Amounts written-off	6,241
At 31 December 2018	**(697,150)**

21. Trade and other receivables (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables (not subject to provisional pricing):

'000 AMD	*Less than 3 months*	*3-6 months*	*6-9 months*	*9-12 months*	*More than 1 year*	*Total*
31 December 2019						
Expected credit loss rate	1.35%	1.76%	3.49%	8.85%	4.50%	**3.91%**
Gross carrying amount	2,029,218	98,860	2,616,837	972,961	2,894,163	**8,612,039**
Expected credit loss	(27,577)	(1,743)	(91,584)	(86,126)	(130,259)	**(337,289)**
Net carrying amount	**2,001,641**	**97,117**	**2,525,253**	**886,835**	**2,763,904**	**8,274,750**

'000 AMD	*Less than 3 months*	*3-6 months*	*6-9 months*	*9-12 months*	*More than 1 year*	*Total*
1 January 2019						
Expected credit loss rate	4.51%	3.20%	3.96%	1.69%	39.55%	**7.44%**
Gross carrying amount	2,113,143	864,726	2,975,557	2,368,474	1,052,619	**9,374,519**
Expected credit loss	(95,322)	(27,665)	(117,761)	(40,083)	(416,319)	**(697,150)**
Net carrying amount	**2,017,821**	**837,061**	**2,857,796**	**2,328,391**	**636,300**	**8,677,369**

The table below shows the credit quality of the Group's trade receivables (not subject to provisional pricing):

Trade receivables (not subject to provisional pricing)	*Stage 1 AMD'000*	*Stage 2 AMD'000*	*Stage 3 AMD'000*	*Total AMD'000*
Expected credit loss charges as at 1 January 2019	240,748	69,116	387,286	**697,150**
Expected credit loss charges as at 31 December 2019	29,320	177,710	130,259	**337,289**
Recovery	–	–	(387,286)	**(387,286)**

22. Cash and cash equivalents

'000 AMD	*2019*	*2018*
Bank balances	5,462,981	525,217
Cash on hand	–	10
Cash and cash equivalents	**5,462,981**	**525,227**

The Group's exposure to currency and interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 31.

23. Capital and reserves

a) Share capital

Number of shares unless otherwise stated	*Ordinary shares 2019*	*2018*
Par value	AMD 20,000	AMD 20,000
Authorized shares, issued and fully paid	687,081	2,748,334
Treasury shares, issued but not fully paid	2,061,253	–

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

During 2019 the Group has repurchased from its shareholders 2,061,253 shares at nominal value of AMD 20 thousand for the amount of AMD 79,164,677 thousand. During 2019 the Group had announced and not allocated additional 687,078 ordinary shares at nominal value of AMD 20 thousand (2018: 251,666 shares).

As at 31 December 2019 the Group had liability for repurchased shares towards previous shareholders in the amount of AMD 43,122,871 thousand. The liability matures in 2021. Holding shares of the Group will be pledged as security to the liabilities for share repurchase during 2020.

23. Capital and reserves (continued)

b) 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 statutory financial statements prepared in accordance with International Financial Reporting Standards, except for restrictions on retained earnings as described below.

24. Issued bonds

During 2019 the Group had issued interest-bearing domestic bonds with nominal value of 2,500,000 thousand and USD 50,000 thousand maturing in 2022. Annual interest rates ranging from 7.5% to 11%.

As at 31 December 2019 the aggregate balance of issued bonds was AMD 26,246,908 thousand (2018: nill).

The bonds were issued by the Group for financing liabilities, capital investment projects and improving the current structure of equity financing. The instruments are listed on Armenia Securities Exchange.

25. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 31.

'000 AMD	*2019*	*2018*
Non-current liabilities		
Secured bank loans and credit lines/overdrafts	21,170,845	23,757,102
Unsecured loans from other organizations	11,968,510	–
	33,139,355	**23,757,102**
Current liabilities		
Secured bank loans and credit lines/overdrafts	17,499,038	16,950,204
Unsecured loans from other non-financial organizations	31,444,894	26,641,315
	48,943,932	**43,591,519**

During 2019, the Group signed another credit line agreement with the same Armenian bank with a maximum limit of USD 18,000 thousand, which expires in 2025. As at 31 December 2019 the outstanding balance under this credit line agreement is USD 18,000 thousand.

Secured bank loans include a loan agreement signed in 2018 with an Armenian bank with maturity date April 2023. As at 31 December 2019 the outstanding balance is AMD 18,197,398 thousand.

Secured bank loans also include two loan agreements signed in 2018 and 2019 with an Armenian bank with maturity dates August 2019 and June 2019. As at 31 December 2019 the outstanding balances of these loans are both nil.

Loans and borrowing include also secured bank revolving overdraft facilities with two Armenian banks with maximum limits of USD 13,000 thousand and USD 13,400 thousand. As at 31 December 2019 the outstanding balances are AMD 6,088,709 thousand (2018: AMD 5,713,241 thousand) and AMD 5,985,396 thousand (2018: AMD 4,914,099 thousand) respectively. The agreements were amended during 2019, as a result the overdraft agreements were prolonged and mature in December 2025.

Secured bank loans and overdrafts are from the same Armenian banks and are secured by bank account balances and property, plant and equipment of the Group and by bank account balances of the Group and lands respectively (see Note 13). At 31 December 2019, the Group had available USD 1,261 thousand (2018: USD 10,000 thousand) of undrawn committed borrowing facilities.

25. Loans and borrowings (continued)

Terms and conditions of outstanding loans were as follows:

'000 AMD	*Currency*	*Nominal interest rate*	*Year of maturity*	*Carrying amount*
31 December 2019				
Secured bank loans	USD	9%	2020-2023	18,197,398
Secured bank overdrafts	USD	8%-9%	2020-2025	12,074,105
Unsecured loans from non-financial organizations	USD	(LIBOR + 5.5%) – 9.9%	2020-2022	43,146,904
Secured bank line of credit	USD	8%	2025	8,664,880
Total interest-bearing liabilities				**82,083,287**

'000 AMD	*Currency*	*Nominal interest rate*	*Year of maturity*	*Carrying amount*
31 December 2018				
Secured Bank loans	USD	9%	2019-2023	30,079,966
Secured bank overdrafts	USD	9%	2020	10,627,340
Unsecured loans from non-financial organizations	USD	8%-10%	2019-2023	26,641,315
Total interest-bearing liabilities				**67,348,621**

26. Provisions

'000 AMD	*Provision for site restoration*	*Employee termination benefits*	*Total*
Non-current	3,050,170	186,501	**3,236,671**
Current	116,495	290,309	**406,804**
Balance at 1 January 2019	**3,166,665**	**476,810**	**3,643,475**
Provision used during the year	(132,989)	(298,578)	**(431,567)**
Changes in estimates	76,886	(23,949)	**52,937**
Effect of changes in foreign exchange rate	–	(3,137)	**(3,137)**
Unwinding of discount (Note 10)	303,906	33,857	**337,763**
Balance at 31 December 2019	**3,414,468**	**185,003**	**3,599,471**
Non-current	3,267,194	–	**3,267,194**
Current	147,274	185,003	**332,277**

a) Site restoration

Artsvanik tailing dam

The Group has a constructive obligation to restore contaminated land affected during the use of the tailing dam (Artsvanik dam) for the purpose of mine exploitation and concentrate production. The provision for restoration works of Artsvanik dam constitutes AMD 2,664,253 thousand as at 31 December 2019 (2018: AMD 2,487,446 thousand).

The total amount of the estimated undiscounted cash flows required to settle the obligation is AMD 6,914,419 thousand (2018: AMD 7,786,792 thousand) considering the effect of average forecasted inflation rate of 3.31% (2018: 3.57%) for Armenia. An annual discount rate of 9.03% (2018: 10.10%) was used to discount restoration costs to be made in 15 years' time. The timing of provision has been taken based on the management estimate on when the Group will realize its restoration obligation in respect of existing tailing dam as at 31 December 2019. The discount rate represents the rate for long term Armenian Government bonds.

The provision increased as compared to the amount recognized as at 31 December 2018 due to changes in estimated volume of restoration works, estimated annual discount rate and inflation rate. Changes to the estimated future costs have been dealt with prospectively by recognizing an adjustment to the site restoration liability and a corresponding adjustment to the asset to which it relates.

27. Provisions (continued)

a) Site restoration (continued)

Hankasar tailing dam

The Group has a constructive obligation to restore contaminated land affected during the use of the tailing dam (Hankasar dam) for the purpose of mine exploitation and concentrate production. The provision for restoration works of Hankasar dam constitutes AMD 250,924 thousand as at 31 December 2019 (31 December 2018: AMD 238,966 thousand).

The total amount of the estimated undiscounted cash flows required to settle the obligation is AMD 262,104 thousand considering the effect of average forecasted inflation rate of 3.89% (2018: 3.88%) for Armenia. An annual discount rate of 6.4% (2018: 7.4%) was used to discount restoration costs to be made in 3 years' time between 2022 and 2025. The timing of provision has been taken based on the management estimate on when the Group will realize its restoration obligation in respect of existing tailing dam. The discount rate represents the rate for long term Armenian Government bonds.

Mine closure and waste dumps

During 2013, overall site restoration obligations of Armenian mining companies were clarified and enforced legally by the revised Law on Mining. The clarified law introduced a scheme under which the Group is required to make payments to a specified government fund. The calculation of the required payments should be performed according to the formula determined by the Government under a separate legal act. On 11 February 2013 the Government issued a legal act on the method of calculation of payments for a site restoration obligation which needs to be prepared by management and approved by the state authorities.

The volume, timing and costs of restoration works are stipulated in Mine closure plan of the Group. The nature of these restoration activities includes: recultivation of the surface and slopes of the waste dumps, strengthening and recultivation of the open-pit walls, restoration of the drainage system in the area of the dumps, breaking up and covering the roadways connecting the open pit, dumps and plant with a soil and vegetation layer, restoration of all disturbed lands, filling up small borrow pits.

The provision for restoration works related to mine closure and waste dumps constitutes AMD 499,291 thousand as at 31 December 2019 (2018: AMD 440,253 thousand).

The total amount of the estimated undiscounted cash flows required to settle the obligation is AMD 2,943,820 thousand. An annual discount rate of 10.12% (2018: 10.70%) was used to discount restoration costs to be made in 24 years' time.

The timing of provision has been taken based on the term of existing License Agreement of the Group. The discount rate represents the rate for long term Armenian Government bonds.

b) Employee termination benefits

The provision for termination benefits as at 31 December 2019 relates to the Group's contractual obligation to pay the amount of AMD 187,174 thousand (2018: AMD 751,902 thousand) to the former management of the Group on termination of their employment contracts in July 2014.

An annual discount rate of 4.92% (2018: 8.62%) was used to discount the payments to be made in 1-3 years' time based on the management estimate of the timing of the terminations.

27. Financial instruments at fair value through profit or loss

Financial liabilities at fair value through profit or loss are in the amount of AMD 394,870 thousand (2018: financial assets at fair value through profit or loss AMD 254,868 thousand) represent the fair value of futures and options on copper with one counterparty (2018: one counterparty).

Net loss from financial instruments at fair value through profit or loss comprises of gain AMD 120,505 thousand (2018: loss AMD 4,390,165 thousand) and unrealized loss AMD 787,188 thousand (2018: gain AMD 7,483,504 thousand).

The Group's exposure to credit, currency and liquidity risks related to financial instruments at fair value through profit or loss are disclosed in Note 31.

28. Trade and other payables

'000 AMD	*2019*	*2018*
Current trade and other payables		
Payables for acquisition of inventory and property, plant and equipment	20,380,290	18,073,421
Payables for services received	7,401,897	4,490,433
Trade payables (subject to provisionally pricing) – fair value	576,911	740,593
Other payables and accrued expenses	374,757	1,898,234
Total trade and other payables	**28,733,855**	**25,202,681**

The Group's exposure to credit and currency risks related to trade and other payables are disclosed in Note 31.

The Group has interest bearing payables in the amount of USD 986,127 (AMD 480,244 thousand) with annual interest rate of 6%.

29. Lease liabilities, other financial liabilities

The Group had finance lease contracts for several items of machinery in the category of Plant and Equipment in 2018. As at 1 January 2019 finance lease liabilities and related assets were reclassified to Lease liabilities and Right-of-use assets. Additionally, the Group recognized right-of-use assets for contracts, previously classified as operating lease.

The Group also has certain leases of machinery with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemptions for these leases.

'000 AMD	*Lease liabilities*
As at 1 January 2019	**4,050,952**
Accretion of interest	307,600
Payments	(1,268,664)
As at 31 December 2019	**3,089,888**
Current lease liabilities	936,873
Non-current lease liabilities	2,153,015

30. Contract liabilities, other financial liabilities

Non-current	*2019*	*2018*
Streaming contracts	–	29,421,478
Non-current advances received for PP sales	9,656,580	9,735,810
Contract liabilities	**9,656,580**	**39,157,288**

Current	*2019*	*2018*
Current advances received for PP sales	17,834,876	20,529,702
Streaming contracts	–	1,814,063
Contract liability of freight/shipping revenue	1,363,710	465,325
Contract liabilities	**19,198,586**	**22,809,090**

From time to time, the Group recognises contract liabilities in relation to some metal in concentrate sales which are sold under FCA and CIP Incoterms, whereby a portion of the cash may be received from the customer before the freight/shipping services are provided. The revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was AMD 465,325 thousand (2018: AMD 812,594 thousand).

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 was AMD 1,363,710 thousand (2018: AMD 465,325 thousand). All the other remaining performance obligations are expected to be recognised within one year.

The opening balance of contract liabilities at 1 January 2019 was AMD 465,325 thousand. The movement in contract liabilities from one period to the next depends on the value of deferred revenue relating to freight/shipping services that are still in the process of being provided at period end, i.e., because a shipment of copper concentrate subject to CIP Incoterms is still on the way at period end.

30. Contract liabilities, other financial liabilities (continued)

Included in non-current advances received for provisionally priced sales are advances of AMD 9,656,580 thousand (2018: AMD 9,735,810 thousand) which are subject to set-off against the sales of copper and molybdenum concentrate during 2021. These balances bear interest rate of 1 month USD Libor plus 4.95%.

Included in current advances received for provisionally priced sales are advances of AMD 17,834,876 thousand (2018: AMD 20,529,702 thousand) which are subject to set-off against the sales of copper and molybdenum concentrate during 2020. These balances bear interest rate of 1 month USD Libor plus 4.5%.

'000 AMD	*Contract liabilities Non-current*	*Contract liabilities Current*	*Streaming contracts*	*Contract liability for shipping services*	*Total*
Non-current	9,735,810	–	29,421,478	–	**39,157,288**
Current	–	20,529,702	1,814,063	465,325	**22,809,090**
Balance as at 1 January 2019	**9,735,810**	**20,529,702**	**31,235,541**	**465,325**	**61,966,378**
Advances received	–	208,820,938	–	5,067,055	**213,887,993**
Advances repayment	–	(210,687,399)	(2,066,093)	(4,168,670)	**(216,922,162)**
Interest accrued on advances	629,201	446,782	–	–	**1,075,983**
Interest repayment	(708,431)	(1,275,147)	–	–	**(1,983,578)**
Payable for cancelled streaming contract	-	-	21,199,155	–	**21,199,155**
Recognition of financial liability under cancelled streaming contract	–	–	(50,368,603)	–	**(50,368,603)**
Balance as at 31 December 2019	**9,656,580**	**17,834,876**	**-**	**1,363,710**	**28,855,166**
Non-current	9,656,580	–	-	–	**9,656,580**
Current	–	17,834,876	-	1,363,710	**19,198,586**

'000 AMD	*Contract liabilities Non-current*	*Contract liabilities Current*	*Streaming contracts*	*Contract liability for shipping services*	*Total*
Non-current	14,361,382	–	10,479,660	–	**24,841,042**
Current	–	12,165,858	806,833	812,594	**13,785,285**
Balance as at 1 January 2018	**14,361,382**	**12,165,858**	**11,286,493**	**812,594**	**38,626,327**
Advances received	(18,778)	193,406,411	21,705,153	3,205,472	**218,298,258**
Advances repayment	(3,362,604)	(185,416,220)	(1,756,105)	(3,552,741)	**(194,087,670)**
Interest accrued on advances	867,652	697,597	–	–	**1,565,249**
Interest repayment	(2,111,842)	(323,944)	–	–	**(2,435,786)**
Balance as at 31 December 2018	**9,735,810**	**20,529,702**	**31,235,541**	**465,325**	**61,966,378**
Non-current	9,735,810	–	29,421,478	–	**39,157,288**
Current	–	20,529,702	1,814,063	465,325	**22,809,090**

During 2016 and 2017 the Group concluded two copper concentrate offtake streaming contracts with prepayment amounts of USD 25 mln and USD 50 mln respectively. According to these two contract terms the Group is obliged to sell 150,000 and 480,000 wet metric tonnes of concentrate during the years 2017-2031 and 2018-2041 respectively at discounted price. As at 31 December 2019 the balance comprised nill (2018: AMD 31,235,541 thousand).

In 2019 the Group terminated the streaming contracts with stream finance providers and concluded contract for mentioned concentrate delivery with other customer. According to termination contract the Group is obliged to repay the stream finance providers USD 30 mln and USD 74 mln for the stream contracts, respectively.

As at 31 December the Group recognised liability in the aggregate amount of AMD 50,368,603 thousand as Other financial liability in the statement of financial position, which includes penalty of AMD 21,199,155 thousand for termination of streaming contracts. The penalty was recognised by deducting revenue from copper concentrate (Note 6). The balances bear interest of 9.5%.

31. Fair values and risk management

a) Fair value measurement procedures

Carrying value versus fair value

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those whose carrying amounts are a reasonable approximation of fair value:

'000 AMD	*Financial instrument classification*	*Carrying amount 2019*	*Carrying amount 2018*	*Fair value 2019*	*Fair value 2018*
Financial liabilities					
Loans and borrowings	Amortised cost	82,083,287	67,348,621	82,083,287	67,348,621
Issued bonds	Amortised cost	26,246,908	–	26,246,908	–
Payables for share repurchase	Amortised cost	48,032,338	–	43,122,871	–
Other financial liabilities	Amortised cost	50,368,603	–	50,368,603	–
Financial Assets					
Loans given	Amortised cost	10,126,175	8,915,150	10,126,175	8,915,150

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The Group have assessed that the fair values of cash and cash equivalents, loans given and trade receivables (not subject to provisional pricing), trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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.
- All derivatives and provisionally priced trade receivables are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity.

'000 AMD	*Fair value measurement using: Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
31 December 2019				
Assets measured at fair value				
Investments at fair value through profit or loss (Note 17)				
Investments at fair value through profit or loss	–	–	777,159	**777,159**
Trade and other receivables				
Derivatives embedded in copper sales contracts	–	635,771	–	**635,771**
Derivatives embedded in molybdenum concentrate contracts	–	–	105,217	**105,217**
Derivatives embedded in molybdenum sales contracts	–	–	(42,587)	**(42,587)**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss (Note 27)				
Commodity futures (copper)	394,870	–	–	**394,870**
Assets for which fair values are disclosed				
Loans given (Note 19)	–	10,126,175	–	**10,126,175**
Liabilities for which fair values are disclosed				
Loans and borrowings (Note 25)	–	82,083,287	–	**82,083,287**
Issued bonds (Note 24)	26,246,908	–	–	**26,246,908**

31. Fair values and risk management (continued)

a) Fair value measurement procedures (continued)

	Fair value measurement using			
'000 AMD	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
31 December 2018				
Assets measured at fair value				
Investments at fair value through profit or loss (Note 17)				
Investments at fair value through profit or loss	–	–	877,159	**877,159**
Trade and other receivables				
Trade receivables (subject to provisional pricing) – fair value (Copper)	–	923,451	–	**923,451**
Financial assets at fair value through profit or loss (Note 27)				
Commodity futures (copper)	254,868	–	–	**254,868**
Assets for which fair values are disclosed				
Loans given (Note 19)	–	8,915,150	–	**8,915,150**
Liabilities for which fair values are disclosed	–			
Loans and borrowings (Note 25)	–	67,348,621	–	**67,348,621**

Level 3 Investments at fair value through profit or loss

In 2019 and 2018 the shares of AHEK were not actively traded and their fair value was determined using discounted cash flows techniques.

Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December are as shown below:

		Valuation technique	*Significant unobservable input*	*Input value or range*	*Sensitivity of the input to fair value*
2019	Investments at fair value through profit or loss	DCF method	WACC	11%	1% increase in the WACC would result in a decrease in fair value by AMD 99,991 thousand.
2018	Investments at fair value through profit or loss	DCF method	WACC	11%	1% increase in the WACC would result in a decrease in fair value by AMD 227,646 thousand.
2019	Derivatives embedded in molybdenum concentrate sales contracts	Forward pricing model	Molybdenum Oxide spot price	20.17 USD/kg	6.1% decrease in Molybdenum spot price would result in a decrease in fair value by AMD 60,673 thousand.
2019	Derivatives embedded in molybdenum sales contracts	Forward pricing model	Molybdenum spot price	21.95 USD/kg	6.1% decrease in Molybdenum spot price would result in a decrease in fair value by AMD 329,441 thousand.

b) Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise trade and other payables, loans and borrowings. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the Group's capital expenditure programme. The Group's principal financial assets, other than derivatives, comprise investments at fair value through profit or loss, trade and other receivables, loans given and cash and cash equivalents.

31. Fair values and risk management (continued)

b) Financial risk management (continued)

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

- Market risk;
- Liquidity risk;
- Credit risk.

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

Risk management framework

The Management has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

i. Market risk

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 risk comprises three types of risks: commodity price risk, interest rate risk and foreign currency risk. Financial instruments affected by market risk include loans and borrowings, cash and cash equivalents, loans given, trade receivables and trade payables.

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 major commodity price exposure is to the prices of copper concentrate and ferro-molybdenum. Forward prices of these commodities at the reporting date affect the fair value of the embedded derivatives in sales contracts.

Commodity price sensitivity

The table below summarises the impact on profit before tax for changes in copper prices on the fair value of derivative financial instruments and provisionally priced sales. The impact on equity is the same as the impact on profit before income tax. 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 copper prices move 6.1% with all other variables held constant. Reasonably possible movements in commodity prices were determined based on economic forecasters' expectations.

Increase/(decrease) in copper prices	***Effect on profit before tax for the year ended 31 December 2019 increase/(decrease)***	***Effect on profit before tax for the year ended 31 December 2018 increase/(decrease)***
	'000 AMD	***'000 AMD***
Increase 6.1% (2018: 8.14%)	544,396	1,290,348
Decrease 6.1% (2018: 8.14%)	(544,396)	(1,290,348)

31. Fair values and risk management (continued)

b) Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, based on the last two years' historical rates and economic forecasters' expectations of the Group's profit before tax through the impact on floating rate loans given and interest payables from long-term advances received (with all other variables held constant).

Increase/(decrease) in 1month USD LIBOR rate	***Effect on profit before tax for the year ended 31 December 2019 increase/(decrease)***	***Effect on profit before tax for the year ended 31 December 2018 increase/(decrease)***
	'000 AMD	***'000 AMD***
Increase 0.35% (2018: 0.50%)	20,231	(88,835)
Decrease 0.35% (2018: 0.15%)	(20,231)	26,650

Foreign currency sensitivity

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 is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the functional currency of the Group. The currency in which these transactions are primarily denominated is USD.

Generally, loans and borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD. This provides an economic hedge without a need to enter into derivatives contracts.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at reporting date:

Increase/(decrease) in foreign exchange rate	***Effect on profit before tax for the year ended 31 December 2019 increase/(decrease)***	***Effect on profit before tax for the year ended 31 December 2018 increase/(decrease)***
	'000 AMD	***'000 AMD***
USD		
Increase 3.5% (2018: 3.5%)	(6,514,438)	(452,478)
Decrease 3.5% (2018: 3.5%)	6,514,438	452,478
EUR		
Increase 8.0% (2018: 8.0%)	(531)	(28,284)
Decrease 8.0% (2018: 8.0%)	531	28,284

31. Fair values and risk management (continued)

b) Financial risk management (continued)

ii. Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and lease contracts. Approximately 44% of the Group's debt will mature in less than one year at 31 December 2019 (2018: 11%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Year ended 31 December 2019	*On demand*	*Less than 1 year*	*1-2 years*	*2-5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	–	51,022,702	18,237,040	9,716,172	8,664,880	**87,640,794**
Issued bonds	–	2,523,594	2,073,875	28,109,156	–	**32,706,625**
Liabilities for shares repurchased	–	24,006,496	24,025,842	–	–	**48,032,338**
Lease liabilities	–	871,462	862,602	1,355,824	–	**3,089,888**
Accounts payable and accrued liabilities	–	23,955,597	3,365,955	1,412,303	–	**28,733,855**
Financial liabilities at fair value through profit or loss	–	394,870	–	–	–	**394,870**
Other financial liability	-	9,085,035	9,085,035	26,854,293	5,344,240	**50,368,603**
	–	**111,859,756**	**57,650,349**	**67,447,748**	**14,009,120**	**250,966,973**

Year ended 31 December 18	*On demand*	*Less than 1 year*	*1-2 years*	*2-5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	–	51,226,586	7,026,206	14,439,810	–	**72,692,602**
Accounts payable and accrued liabilities	1,039,030	24,051,637	–	–	–	**25,090,667**
Finance lease	–	800,579	871,462	2,084,745	–	**3,756,786**
	1,039,030	**76,078,802**	**7,897,668**	**16,524,555**	**–**	**101,540,055**

iii. Credit risk

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

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

31. Fair values and risk management (continued)

b) Financial risk management (continued)

Exposure to credit risk

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

	Carrying amount	
'000 AMD	***2019***	***2018***
Bank balances	5,462,981	525,217
Trade and other receivables	9,919,327	9,600,820
Loans given	10,126,175	8,915,150
Financial assets at fair value through profit or loss	–	254,868
	25,508,483	**19,296,055**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances.

The revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue was AMD 197,943,080 thousand in 2019 (2018: AMD 169,299,339 thousand). Approximately 30.75% (2018: 32.05%) of the Group's revenue from copper concentrate, ferro-molybdenum and molybdenum concentrate is attributable to sales transactions with related parties. The rest of the revenue from concentrate is attributable to sales transactions with ten (2018: five) customers.

At 31 December 2019, the Group had three customers (2018: three customers) that each owed the Group more than AMD 1,000,000 thousand each and accounted for approximately 76% (2018: 67%) of all receivables owing.

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

	Carrying amount	
'000 AMD	***2019***	***2018***
Domestic	6,146,470	6,320,555
Foreign	3,772,857	3,280,265
	9,919,327	**9,600,820**

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

	Carrying amount	
'000 AMD	***2019***	***2018***
Copper and molybdenum customers	1,644,577	923,451
Other products – other customers	8,274,750	8,677,369
	9,919,327	**9,600,820**

Bank balances

The Group held bank balances of AMD 5,463,117 thousand at 31 December 2019 (2018: AMD 525,227 thousand), which represents its maximum credit exposure on these assets. At 31 December 2019 99% of total exposure is held with two B+ rated Armenian banks by Fitch (2018: 96%). The remaining 1% of total exposure at 31 December 2019 is held with top 2 Armenian banks.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, customer type and rating). Where practical, Group uses information from the national and international external rating agencies – Annual Default Studies by Moody's.

31 Fair values and risk management (continued)

c) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs. This is achieved with efficient cash management, constant monitoring of Group's revenues and profit (loss), and long-term investment plans mainly financed by the Group's operating cash flows, as well as loans and borrowings. With these measures the Group aims for steady profits growth.

d) Changes in liabilities arising from financing activities

'000 AMD	*Liabilities for shares repurchased*	*Other financial liabilities*	*Lease liabilities*	*Issued bonds*	*Loans and borrowings*	*Total*
Balance as at 1 January 2018	**–**	**–**	**–**	**–**	**72,138,533**	**72,138,533**
Proceeds	–	–	–	–	212,025,762	**212,025,762**
Repayment	–	–	–	–	(215,820,449)	**(215,820,449)**
Non-cash transactions	–	–	–	–	9,948,741	**9,948,741**
Non-cash repayment of loan and interest through set-off	–	–	–	–	(5,121,365)	**(5,121,365)**
Foreign exchange movement	–	–	–	–	(298,764)	**(298,764)**
Interest paid	–	–	–	–	(5,523,837)	**(5,523,837)**
Balance as at 31 December 2018	**–**	**–**	**–**	**–**	**67,348,621**	**67,348,621**
Proceeds	–	–	–	26,368,872	224,302,342	**250,671,214**
Repayment	(31,047,068)	–	(1,268,664)	–	(199,771,716)	**(232,087,448)**
Non-cash transactions	74,255,211	51,022,046	4,358,552	546,648	6,755,232	**136,937,689**
Non-cash repayment of loan and interest through set-off	–	–	–	–	(10,885,856)	**(10,885,856)**
Foreign exchange movement	(85,272)	(258,573)	–	170,247	(785,700)	**(959,298)**
Interest paid	–	–	–	(838,859)	(4,554,016)	**(5,392,875)**
Other	–	–	–	–	(325,620)	**(325,620)**
Balance as at 31 December 2019	**43,122,871**	**50,763,473**	**3,089,888**	**26,246,908**	**82,083,287**	**205,306,427**

32. Contingencies and commitments

a) Insurance

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

b) Taxation contingencies

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

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

c) Environmental contingencies

The Group is subject to various state laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials. The Group has not provided for any potential environmental contingency as the management does not consider any environmental contingent liability to be probable in the foreseeable future. However, environmental legislation in Armenia is in the process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

32. Contingencies and commitments (continued)

d) Commitments and other contingencies

Financial guarantees

In 2018 the Group provided financial guarantees to non-related companies in total amount of USD 54,762,694 or AMD 26,491,453 thousand, the guarantee contracts mature until July of 2019. The ECL calculated for the guarantees is not significant. No financial guarantees provided in 2019.

33. Operational risks

a) Mines

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

b) Copper and molybdenum price volatility

The Group's financial performance is heavily dependent on the price of copper, which is affected by many factors beyond the Group's control. Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE). The Group's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical.

During the year ended 31 December 2019, LME monthly average closing spot prices ranged from USD 5,537 to USD 6,572 per ton for copper. The LME spot copper price closed at USD 4,779 per ton on 31 March 2020.

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

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

The price of molybdenum was averaging to approximately USD 26,582 per ton during 2019 in comparison with USD 28,997 per ton during 2018. The LME spot price of USD 18,585 per ton of molybdenum was registered on 31 March 2020.

Global economics conditions remained uncertain throughout 2019 due to escalated trade tensions and heightened political instability. And this gradual deceleration is expected to continue, despite the volatility created by the advent of COVID-19 in the longer term the trend of the income growth in emerging markets will continue to drive global commodity demand. Longer term demand is expected to remain robust as a result of urbanization, industrialization and electrification of emerging markets.

34. Related parties

a) Control relationships

In accordance with Government Decree No 1677-A dated 9 December 2004 the Group was privatised by the state. The ownership structure of the Group is disclosed in Note 1.

During 2019 the Group repurchased its shared held by Cronimet Mining AG (60%) and Plant of Pure Iron OJSC (15%), the latter continues to remain related party as at 31 December 2019.

b) Transactions with key management personnel

Board of Directors and key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see Note 13):

'000 AMD	*2019*	*2018*
Salaries and bonuses		
Short-term employee benefits	1,290,606	1,019,721
Termination benefits (Note 26)	185,003	411,668
	1,475,609	**1,431,389**

There have been no guarantees provided or received for any related party receivables or payables.

The Group's related party transactions are disclosed below. The changes in the structure of shareholders is presented in Note 1.

i. Revenues

'000 AMD	*Transaction value 2019*	*Outstanding balance 2019*
Sale of molybdenum concentrate and ferro-molybdenum		
Shareholders	39,959,592	–
Entities under common control	25,558,725	–
Services provided		
Shareholder	837	–
Other related parties	–	2,006,266
Entities under common control	–	-
Other income		
Shareholder	5,854	–
Entities under common control	1,438	–
	65,526,446	**2,006,266**

'000 AMD	*Transaction value 2018*	*Outstanding balance 2018*
Sale of molybdenum concentrate and ferro-molybdenum		
Shareholders	36,047,178	(9,912,825)
Entities under common control	22,993,851	(43,195)
Sale of copper concentrate		
Entities under common control	4,162,430	–
Services provided		
Shareholders	800	80
Other related parties	–	2,006,186
Other income		
Shareholder	11,249	–
	63,215,508	**(7,949,754)**

34. Related parties (continued)

ii. Expenses

'000 AMD	*Transaction value 2019*	*Outstanding balance 2019*
Purchase of materials		
Shareholders	5,852	(562,503)
Entities under common control	1,436	–
Other related parties	–	–
Purchase of property, plant and equipment		
Shareholders	–	(88,800)
Entities under common control	273,110	–
Services received		
Shareholders	8,868,646	–
Entities under common control	802,285	–
Other related parties	–	(1,200,201)
Donations provided		
Other related parties	3,796,522	–
Entities under common control	273,000	–
Commission fee		
Shareholder	240	–
Entities under common control	374,157	–
	14,395,248	**(1,851,504)**

'000 AMD	*Transaction value 2018*	*Outstanding balance 2018*
Purchase of materials		
Shareholders	985,670	(767,378)
Entities under common control	70,103	–
Purchase of property, plant and equipment		
Shareholders	2,245	–
Entities under common control	118,412	–
Services received		
Shareholders	8,325,036	(632,433)
Entities under common control	1,828,602	(8,463)
Other related parties	–	–
Donations provided		
Other related parties	4,378,051	–
Entities under common control	180,000	–
Interest expense on advances received		
Shareholders	724,514	(60,812)
Commission fee		
Entities under common control	161,354	–
	16,773,987	**(1,469,086)**

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. Long-term liabilities towards previous shareholders are disclosed in Note 23.

Services received from the entities under common control mainly include geological studies and research performed by non-related parties sub-contracted by the related parties.

Other related parties include entities under significant influence of the Board of Directors.

34. Related parties (continued)

iii. Loans and borrowings

'000 AMD	*Transaction value 2019*	*Transaction value 2018*	*Outstanding balance 2019*	*Outstanding balance 2018*
Loans given				
Shareholders	333,431	8,600,777	–	8,626,218
Interest income on loans given				
Shareholders	686,396	465,810	–	466,431
Interest expense on loans and borrowings				
Shareholders	–	(194,511)	–	–
	1,019,827	**8,872,076**	**–**	**9,092,649**

35. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 16 *Leases* for the first time from 1 January 2019. The nature and effect of these changes as a result of the adoption of these new standards are described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several other amendments and interpretations applied for the first time in 2019 but did not have an impact on the consolidated financial statements of the Group and, hence, have not been disclosed. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17 other than the requirements applying to subleases. Lessors will continue to classify all leases as either operating leases or finance leases using similar principles as in IAS 17. IFRS 16 does not have any impact for leases where the Group is the lessor.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application and comparatives have not been restated. The Group has applied the new definition of a lease to all arrangements still effective at the date of initial application.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases with lease terms that end within 12 months of the date of initial application and leases of low-value assets.

The right-of-use assets for all leases were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease terms that end within 12 months of the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

35. Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

The effect (increase/(decrease)) of adopting IFRS 16 as at 1 January 2019

'000AMD	***Retained earnings***
Assets	
Right-of-use assets	4,050,952
Total assets	**4,050,952**
Current lease liabilities	1,228,274
Non-current lease liabilities	2,822,678
Total liabilities	**4,050,952**
Total adjustment on equity	**–**

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

'000 AMD	***Lease liabilities***
Operating lease commitments as at 31 December 2018	**10,882,690**
Weighted average incremental borrowing rate as at 1 January 2019	9%
Discounted operating lease commitments as at 1 January 2019	**2,506,552**
Less	
Commitments relating to short-term leases	(1,585,385)
Commitments relating to leases of low value assets	(32,393)
Add	
Commitments relating to leases previously classified as finance leases	3,162,178
Lease liabilities as at 1 January 2019	**4,050,952**

36. Events after the reporting period

Due to the recent development of the coronavirus pandemic (COVID-19), many countries, including the Republic of Armenia, introduced quarantine measures. It is expected that both the pandemic itself and measures to minimize its consequences can affect the activities of companies from various industries. The scale and duration of these developments remain uncertain but will impact the Group's earnings, cash flow and financial condition. The Group regards this pandemic as a non-adjusting subsequent event, the financial effect of which cannot be estimated at the moment with a sufficient degree of confidence.

In February 2020 the Group entered into a secured bank loan agreement with Armenian bank and received a loan in amount of AMD 28,737,000 thousand with maturity date 2025 and a loan in amount of AMD 8,619,660 thousand with maturity date 2020.

During March 2020 the Group entered into loan agreement with non-financial organisations and received loans in total amount of AMD 12,339,500 thousand with maturity date 2020.

During the period from January to April 2020 the Group had repaid it's liabilities from cancelled streaming contracts in the amount of USD 45,932 thousand (AMD 22,191,690 thousand).

In May 2020 the Group entered into loan agreement with non-financial organisation for the amount of USD 60,000 thousand with maturity date 2023.

In March 2020 the Group entered into a share sell agreement to distribute 12.5% of its shares from Treasury stock. At the date of issuance of the financial statement the right is not transferred.

37. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Group intends to adopt these standards when they become effective. Of the other standards and interpretations that are issued, but not yet effective, as these are not expected to impact the Group, they have not been listed.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments to the definition of material is not expected to have a significant impact on the Group's financial statements.

38. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Business combinations

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 non-controlling interest ("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 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.

As part of a business combination, the Group assesses whether there are any operating lease contracts of the acquiree that may be onerous – that is, where the lease premiums being paid on that contract exceed the current market rate for such lease arrangements. Mineral reserves, resources and exploration potential that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognized separately, but instead are subsumed in goodwill.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition-date fair value, and any resulting gain or loss is recognised in the statement of profit or loss and other comprehensive income. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled 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).

38. Summary of significant accounting policies (continued)

a) Business combinations (continued)

If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date.

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in statement of profit or loss and other comprehensive income.

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.

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation of and the portion of the CGU retained.

The Group has identified two CGUs which represent the two companies of the Group: Zangezur Copper Molybdenum Combine CJSC and Ler-Ex LLC.

b) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through OCI, or fair value through profit or loss.

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- ► Financial assets at amortised cost (debt instruments);
- ► Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- ► Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- ► Financial assets at fair value through profit or loss.

38. Summary of significant accounting policies (continued)

b) Financial instruments – initial recognition and subsequent measurement (continued)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Interest received is recognised as part of finance income in the statement of profit or loss and other comprehensive income. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade and other receivables (not subject to provisional pricing), cash and cash equivalents, and loans given. Refer below to 'Financial assets at fair value through profit or loss' for a discussion of trade receivables (subject to provisional pricing).

<u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss include financial assets held for trading, e.g., derivative instruments, financial assets designated upon initial recognition at fair value through profit or loss, e.g., debt or equity instruments, or financial assets mandatorily required to be measured at fair value, i.e., where they fail the SPPI test.

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. Financial assets with cash flows that do not pass the SPPI test are required to be classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

This category includes listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on Equity investments at fair value through profit or loss are recognised as other income in the statement of profit or loss when the right of payment has been established.

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 recognised in profit or loss.

A derivative embedded in a hybrid contract with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

As IFRS 9 now has the SPPI test for financial assets, the requirements relating to the separation of embedded derivatives is no longer needed for financial assets. An embedded derivative will often make a financial asset fail the SPPI test thereby requiring the instrument to be measured at fair value through profit or loss in its entirety. This is applicable to the Group's trade receivables (subject to provisional pricing). These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price at the relevant QP stipulated in the contract. This exposure to the commodity price causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at fair value through profit or loss from the date of recognition of the corresponding sale, with subsequent movements being recognised adjustment to revenue in the statement of profit or loss and other comprehensive income.

38. Summary of significant accounting policies (continued)

b) Financial instruments – initial recognition and subsequent measurement (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosure of significant assumptions (Note 21);
- Trade and other receivables (Note 21);
- Loans given (Note 19).

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables (not subject to provisional pricing) and other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Group tracks changes in credit risk and calculates ECLs based on sectoral PD per Moody's.

For any other financial assets carried at amortised cost (which are due in more than 12 months), the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group considers a financial asset in default when contractual payments are 1 year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

38. Summary of significant accounting policies (continued)

b) Financial instruments – initial recognition and subsequent measurement (continued)

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Refer Note 31 and Note 21 for further discussion on impairment assessments of financial assets.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income.

<u>Loans and borrowings, issued bonds and trade and other payables</u>

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income.

This category generally applies to interest-bearing loans and borrowings and trade and other payables. For more information, refer to Note 25 and Note 28.

Derecognition

A financial liability is derecognised when the associated obligation 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less, but exclude any restricted cash. Restricted cash is not available for use by the Group and therefore is not considered highly liquid – for example, cash set aside to cover site restoration obligations.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

38. Summary of significant accounting policies (continued)

b) Financial instruments – initial recognition and subsequent measurement (continued)

Derivative financial instruments

The Group uses derivative financial instruments, such as forward commodity contracts, to hedge its commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income.

c) Revenue from contracts with customers

The Group is principally engaged in the business of producing copper/molibdenym concentrate and in some instances, provides freight/shipping services. Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

From time to time, the Group recognises contract liabilities in relation to some metal in concentrate sales which are sold under CIP Incoterms, whereby a portion of the cash may be received from the customer before the freight/shipping services are provided. See Note 30 for further details of contract liabilities.

Copper/molybdenum in concentrate (metal in concentrate) sales

The majority of the Group's sales of metal in concentrate allow for price adjustments based on the market price at the end of the relevant QP stipulated in the contract. 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. Adjustments to the sales price occur based on movements in quoted market prices up to the end of the QP. The period between provisional invoicing and the end of the QP can be between one and three months.

Revenue is recognised when control passes to the customer, which occurs at a point in time when the metal in concentrate is physically transferred onto a vessel, train, conveyor or other delivery mechanism. The revenue is measured at the amount to which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the QP, i.e., the forward price, and a corresponding trade receivable is recognised. For those arrangements subject to CIP shipping terms, a portion of the transaction price is allocated to the separate freight/shipping services provided.

For these provisional pricing arrangements, any future changes that occur over the QP are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15. Given the exposure to the commodity price, these provisionally priced trade receivables will fail the cash flow characteristics test within IFRS 9 and will be required to be measured at fair value through profit or loss up from initial recognition and until the date of settlement.

38. Summary of significant accounting policies (continued)

c) Revenue from contracts with customers (continued)

These subsequent changes in fair value are recognised in the statement of profit or loss and other comprehensive income each period and presented as revenue adjustment.

Changes in fair value over, and until the end of, the QP, are estimated by reference to updated forward market prices for gold and copper as well as taking into account relevant other fair value considerations as set out in IFRS 13, including interest rate and credit risk adjustments.

Freight/shipping services

As noted above, a proportion of the Group's metal in concentrate sales are sold under CIP Incoterms, whereby the Group is responsible for providing freight/shipping services (as principal) after the date that the Group transfers control of the metal in concentrate to its customers. The Group, therefore, has separate performance obligations for freight/shipping services which are provided solely to facilitate sale of the commodities it produces.

Other Incoterms commonly used by the Group are CPT, FCA, where the Group has no responsibility for freight or insurance once control of the products has passed at the loading port in Yerevan, and Delivered at Place (DAP) where control of the goods passes when the product is delivered to the agreed destination. For arrangements which have these Incoterms, the only performance obligations are the provision of the product at the point where control passes.

For CIP arrangements, the transaction price (as determined above) is allocated to the metal in concentrate and freight/shipping services using the relative stand-alone selling price method. Under these arrangements, a portion of consideration may be received from the customer in cash at, or around, the date of shipment under a provisional invoice. Therefore, some of the upfront consideration that relates to the freight/shipping services yet to be provided, is deferred. It is then recognised as revenue upon completion of the Group's performance obligation. The costs associated with these freight/shipping services are also recognised upon completion of the Group's performance obligation.

Payment of the freight/shipping costs may occur in advance of the services being provided (and is therefore recognised as a contract liability). The final portion is paid once the services have been completed. The period of time between receipt of these upfront amounts and the satisfaction of the freight/shipping services is usually up to four months. Given the quantum of these amounts and the short time frame between receipt of cash and satisfaction of the performance obligation, the Group has applied the practical expedient to not adjust the promised consideration for the effects of a significant financing component as the period between the transfer of the promised good or service to a customer and when the customer pays for that good or service is one year or less.

Principal versus agent considerations

The Group has generally concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer.

In some arrangements subject to CIP Incoterms, the Group is responsible for providing freight/shipping services. While the Group does not actually provide nor operate the vessels, trucks or trains, the Group has determined that it is principal in these arrangements because it has concluded it controls the specified services before they are provided to the customer. This is on the basis that the Group obtains control of a right to freight/shipping services after entering into the contract with the customer, but before those services are provided to the customer. The terms of the Group's contract with the service provider give the Group the ability to direct the service provider to provide the specified services on the Group's behalf.

In addition, the Group has concluded that the following indicators provide evidence that it controls the freight/shipping services before they are provided to the customer:

- The Group is primarily responsible for fulfilling the promise to provide freight/shipping services. Although the Group has hired a service provider to perform the services promised to the customer, it is the Group itself that is responsible for ensuring that the services are performed and are acceptable to the customer (i.e., the Group is responsible for fulfilment of the promise in the contract, regardless of whether the Group performs the services itself or engages a third-party service provider to perform the services).
- The Group has discretion in setting the price for the services to the customer as this is negotiated directly with the customer.

38. Summary of significant accounting policies (continued)

c) Revenue from contracts with customers (continued)

Determining the timing of satisfaction of freight/shipping services

The Group concluded that revenue for freight/shipping services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the freight/shipping services that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs. The Group determined that the input method is the best method for measuring progress of the freight/shipping services because there is a direct relationship between the Group's effort (i.e., time elapsed) and the transfer of service to the customer. The Group recognises revenue on the basis of the time elapsed relative to the total expected time to complete the service.

Stripping activity services

The Group provides stripping activity services to a customer. The Group recognises revenue from services at the point in time when the customer receives the benefits provided to at the customer's location. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated.

d) Donations to social programs

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

e) Finance income and costs

The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- Unwinding of discount on provision for site restoration and provision for termination benefits;
- Net fair value gains/losses on financial instruments through profit and loss.

Interest income or expense is recognised using the effective interest method.

Gain/losses on financial instruments through profit or loss are realized only when cash settlement is made.

f) Foreign currency

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

g) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

i. Termination benefits

Termination benefits are expensed when the Group can no longer withdraw the offer of those benefits. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

38. Summary of significant accounting policies (continued)

h) Income tax

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

i. Current income tax

Current income tax assets and liabilities for the current and prior periods 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 in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

ii. Deferred tax

Deferred tax is provided using the balance sheet 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 recognised for all taxable temporary differences, except:

- Where 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 (tax loss).
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, 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 utilised, except:

- Where 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 tax assets are recognised 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 the end of each reporting period 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 income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognised in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current 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 recognised subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or if outside the measurement period, it is recognised in the statement of profit or loss and other comprehensive income.

38. Summary of significant accounting policies (continued)

h) Income tax (continued)

Significant judgements, estimates and assumptions

Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require the Group to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and site restoration costs, capital expenditure, dividends and other capital management transactions). To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

i) Royalties

In addition to corporate income taxes, the Group's consolidated financial statements also include, and recognize as taxes on income, other types of taxes on net income.

Royalties, resource rent taxes and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than physical quantities produced or as a percentage of revenue – after adjustment for temporary differences. For such arrangements, current and deferred income tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements and other types of taxes that do not satisfy these criteria are recognised as current provisions and included in other expenses.

Royalties are calculated using rates enacted or substantively enacted at the reporting date. Royalties are recognised in profit or loss annually based on the combination of the revenues and taxable income adjusted as per the guidelines and requirements in the applicable laws and regulations. Royalties consist of two components: royalty calculated at 4% of revenue and royalty calculated as 12.5% of taxable income adjusted as per the guidelines and requirements in the applicable laws and regulations.

Management believes that royalty expense does not represent an income tax as the total revenue factor (a gross measure) is significant in determining the amount of royalty payable. Royalties are treated as other operating expenses.

j) Inventories

Copper and molybdenum in concentrate, metal in circuit and ore stockpiles are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

If the ore stockpile is not expected to be processed in 12 months after the reporting date, it is included in non-current assets and the net realisable value is calculated on a discounted cash flow basis. Cost is determined by using the weighted-average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods, based on the normal production capacity. The allocation of costs between joint products is based on the relative sales value of each product at the completion of production. Separately identifiable costs of conversion of each metal are specifically allocated.

Materials and supplies are valued at the lower of cost or net realisable value. The costs of materials and supplies are based on the first-in first-out principle, and include expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

38. Summary of significant accounting policies (continued)

k) Property, plant and equipment

i. Recognition and measurement

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

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

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

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 recognised net within other income/other expenses in profit or loss.

ii. Subsequent expenditure

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

iii. 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.

For assets used in the production line, depreciation is charged based on the units of production method using the total estimated productivity and the actual extracted and treated ore. For all other assets, depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

	Units of production method	*Straight-line method*
Buildings		
Mine related workshop buildings and constructions	Average capacity from 182 to 303 million tons	
Other buildings		10 to 100 years
Plant and equipment		
Mine related plant and equipment	Average capacity from 18 to 352 million tons	
Other plant and equipment		2 to 100 years
Fixtures and fittings		2 to 70 years
Mining facilities		25 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

l) Stripping (waste removal) costs

As a part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations. Stripping costs incurred in the development phase of a mine, before the production phase commences (development stripping), are capitalised as part of the cost of constructing the mine and subsequently amortised over its useful life using a units of production (UOP) method. The capitalization of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

38. Summary of significant accounting policies (continued)

l) Stripping (waste removal) costs (continued)

Stripping activities undertaken during the production phase of a surface mine (production stripping) are accounted for as set out below. After the commencement of production, further development of the mine may require a phase of unusually high stripping that is similar in nature to development phase stripping. The cost of such stripping is accounted for in the same way as development stripping (as outlined above).

Production stripping is generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset', if the following criteria are met:

- Future economic benefits (being improved access to the ore body) are probable;
- The component of the ore body for which access will be improved can be accurately identified;
- The costs associated with the improved access can be reliably measured.

If any of the criteria are not met, the production stripping costs are charged to profit or loss as operating costs as they are incurred.

In identifying components of the ore body, the Group works closely with the mining operations personnel for each mining operation to analyse each of the mine plans. Generally, a component will be a subset of the total ore body, and a mine may have several components. The mine plans, and therefore the identification of components, can vary between mines for a number of reasons. These include, but are not limited to: the type of commodity, the geological characteristics of the ore body, the geographical location, and/or financial considerations. Given the nature of the Group's operations, components are generally either major pushbacks or phases and they generally form part of a larger investment decision which requires board approval.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset.

If the costs of the inventory produced and the stripping activity asset are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Group uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is presented as a separate line in the statement of financial position. This forms part of the total investment in the relevant cash generating unit(s), which is reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

The stripping activity asset is subsequently depreciated using the UOP method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

Significant judgements, estimates and assumptions

Significant judgement is required to distinguish between development stripping and production stripping and to distinguish between the production stripping that relates to the extraction of inventory and that which relates to the creation of a stripping activity asset.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes (e.g., in tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

38. Summary of significant accounting policies (continued)

m) Intangible assets

Software

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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

- ► Software 10 years.

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

n) Exploration and evaluation assets

i. Pre-licence costs

Pre-licence costs relate to costs incurred before the Group has obtained legal rights to explore in a specific area. Such costs may include the acquisition of exploration data and the associated costs of analysing that data. These costs are expensed in the period in which they are incurred.

ii. Exploration and evaluation expenditure

Exploration and evaluation (E&E) activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- ► Researching and analysing historical exploration data;
- ► Gathering exploration data through geophysical studies;
- ► Exploratory drilling and sampling;
- ► Determining and examining the volume and grade of the resource;
- ► Surveying transportation and infrastructure requirements;
- ► Conducting market and finance studies.

License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless the Group concludes that a future economic benefit is more likely than not to be realised. These costs include directly attributable employee remuneration, materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating whether the expenditures meet the criteria to be capitalised, several different sources of information are used. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed. E&E expenditure incurred on licenses where a resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs expensed during this phase are included in ‘Other expenses’ in the statement of profit or loss and other comprehensive income.

E&E assets acquired in a business combination are initially recognised at fair value, including resources and exploration potential that is considered to represent value beyond proven and probable reserves. Similarly, the costs associated with acquiring an E&E asset (that does not represent a business) are also capitalised. They are subsequently measured at cost less accumulated impairment. Once commercial reserves are found, E&E assets are tested for impairment and transferred to ‘Mine facilities’ which is a sub-category of ‘Property, plant and equipment’. No amortisation is charged during the E&E phase.

38. Summary of significant accounting policies (continued)

n) Exploration and evaluation assets (continued)

iii. Impairment of E&E assets

E&E assets should be assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. Under IFRS 6 one or more of the following facts and circumstances could indicate that an impairment test is required. The list is not intended to be exhaustive:

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

Significant judgements, estimates and assumptions

The application of the Group's accounting policy for E&E expenditure requires judgement to determine whether 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.

In addition to applying judgement to determine whether future economic benefits are likely to arise from the Group's E&E assets or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Group has to apply a number of estimates and assumptions. The estimates directly impact when the Group defers E&E expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, particularly, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the relevant capitalised amount is written off to the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

o) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset (or CGU) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's FVLCD and its VIU.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. In calculating VIU, 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/CGU. In determining FVLCD, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecasts. The estimated cash flows are based on expected future production, metal selling prices, operating costs and forecast capital expenditure, and cash flows beyond ten years are based on life-of-mine plans. Impairment losses of continuing operations, including impairment of inventories, are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Significant estimates and assumptions

Impairment assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

38. Summary of significant accounting policies (continued)

p) Provisions

i. Site restoration provision

Site restoration costs will be incurred by the Group either while operating, or at the end of the operating life of, the Group's facilities and mine properties. The Group assesses its site restoration provision at each reporting date. The Group recognises a site restoration provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: closing mine, waste sites, tailings dams and related constructions and restoring, reclaiming and revegetating affected areas.

When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine. Costs related to restoration of waste damps and mine closure are provided for at their net present values and recognised in profit or loss.

Changes in the estimated timing of site restoration or changes to the estimated future costs are dealt with prospectively by recognising an adjustment to the site restoration liability and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16, otherwise the change is recognised in profit or loss.

Any reduction in the site restoration liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss and other comprehensive income.

If the change in estimate results in an increase in the site restoration liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment.

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as part of finance costs. For closed sites, changes to estimated costs are recognised immediately in the statement of profit or loss and other comprehensive income.

q) Leases

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Group as a lessee (applicable before 1 January 2019)

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date 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 statement of profit or loss.

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.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

38. Summary of significant accounting policies (continued)

q) Leases (continued)

Group as a lessee (applicable after 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 3 to 15 years;
- Motor vehicles and other equipment 3 to 5 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

r) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current / non-current classification. An asset is current when it is either:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash and cash equivalents unless restricted from being executed or used to settle a liability at least 12 months after the reporting period.

38. Summary of significant accounting policies (continued)

r) Current versus non-current classification (continued)

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

s) 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 (a qualifying asset) are capitalised as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.