Zangezour Copper Molybdenum Combine CJSC

Consolidated Financial Statements
for the year ended 31 December 2012

Contents

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Independent Auditors' Report

To General Meeting of Shareholders of
Zangezour Copper Molybdenum Combine CJSC

We have audited the accompanying consolidated financial statements of Zangezour Copper Molybdenum Combine cjsc (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc

KPMG Armenia cjsc
21 May 2013

’000 AMD	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	14	191,771,229	184,824,938
Intangible assets	15	25,186,464	79,738
Available-for-sale investments	17	370,000	370,000
Prepayments for non-current assets	18	1,019,934	2,738,589
Exploration and evaluation assets	16	94,191	-
Deferred tax asset	25	202,209	-
Other non-current assets		51,000	51,000
Financial assets at fair value through profit or loss	26	-	101,648
Total non-current assets		**218,695,027**	**188,165,913**
Current assets			
Inventories	19	13,664,140	12,347,166
Prepaid income tax		4,435,225	2,400,895
Other prepaid taxes		2,312,128	1,630,934
Trade and other receivables	20	1,123,689	888,726
Prepayments for current assets	18	1,331,201	976,296
Cash and cash equivalents	21	897,203	11,003,458
Other current assets		2,577	2,880
Total current assets		**23,766,163**	**29,250,355**
Total assets		**242,461,190**	**217,416,268**
EQUITY AND LIABILITIES			
Equity	22		
Share capital		54,966,680	37,746,680
Retained earnings		114,747,214	103,586,982
Total equity		**169,713,894**	**141,333,662**
Non-current liabilities			
Loans and borrowings	23	15,594,273	22,189,752
Provision for site restoration	24	1,608,095	-
Deferred tax liabilities	25	22,485,133	17,968,063
Financial liabilities at fair value through profit or loss	26	990,164	349,188
Total non-current liabilities		**40,677,665**	**40,507,003**
Current liabilities			
Loans and borrowings	23	14,605,782	8,732,930
Provision for site restoration	24	155,650	-
Advances received for provisionally priced sales		7,137,644	7,647,022
Trade and other payables	27	6,560,653	6,384,401
Payable for acquisition of subsidiary	5	3,609,902	-
Dividends payable		-	12,811,250
Total current liabilities		**32,069,631**	**35,575,603**
Total liabilities		**72,747,296**	**76,082,606**
Total equity and liabilities		**242,461,190**	**217,416,268**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 51.

'000 AMD	Note	2012	2011
Revenue	6	118,054,644	96,535,630
Cost of sales	7	(63,599,096)	(56,492,202)
Gross profit		**54,455,548**	**40,043,428**
Other income		255,839	241,824
Distribution expenses		(3,261,144)	(3,086,030)
Administrative expenses	8	(4,016,918)	(3,436,766)
Donations to social programs	9	(4,599,047)	(3,884,299)
Impairment losses on intangible assets		-	(1,346,686)
Other expenses	10	(14,008,547)	(6,653,001)
Results from operating activities		**28,825,731**	**21,878,470**
Finance income	12	35,384	9,890
Finance costs	12	(4,963,148)	(1,418,251)
Net finance costs		**(4,927,764)**	**(1,408,361)**
Profit before income tax		**23,897,967**	**20,470,109**
Income tax expense	13	(6,737,735)	(5,401,020)
Profit and total comprehensive income for the year		**17,160,232**	**15,069,089**

These consolidated financial statements were approved by management on 21 May 2013 and were signed on its behalf by:

Maxim Hakobyan
General Director

Aristakes Nersisyan
Chief Accountant

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 8 to 51.

’000 AMD	Share capital	Retained earnings	Total
Balance at 1 January 2011	37,746,680	113,517,893	151,264,573
Profit and total comprehensive income for the year	-	15,069,089	15,069,089
Dividends to equity holders	-	(25,000,000)	(25,000,000)
Balance at 31 December 2011	**37,746,680**	**103,586,982**	**141,333,662**
Balance at 1 January 2012	37,746,680	103,586,982	141,333,662
Shares issued	17,220,000	-	17,220,000
Profit and total comprehensive income for the year	-	17,160,232	17,160,232
Dividends to equity holders	-	(6,000,000)	(6,000,000)
Balance at 31 December 2012	**54,966,680**	**114,747,214**	**169,713,894**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 8 to 51.

’000 AMD	**2012**	**2011**
Cash flows from operating activities		
Receipts from sales, inclusive of VAT	130,519,683	117,090,003
Payments to suppliers	(53,950,966)	(43,318,243)
Payments to employees	(10,078,752)	(9,470,903)
Payments for income tax	(9,320,000)	(12,804,000)
Payments for taxes other than on income	(12,167,726)	(12,078,324)
Royalty payments	(10,625,000)	(4,768,797)
Donations to social programs	(4,837,440)	(3,786,070)
Banks charges and conversion losses	(21,310)	(9,950)
Other receipts	486,461	70,147
Other payments	(86,665)	(59,499)
Net cash from operating activities	**29,918,285**	**30,864,364**
Cash flows used in investing activities		
Acquisition of investment in subsidiary, net of cash acquired	(15,106,087)	-
Acquisition of property, plant and equipment	(13,421,509)	(16,323,806)
Proceeds from sale of property, plant and equipment	50,627	-
Dividends received	16,667	-
Interest received	18,766	9,770
Net cash used in investing activities	**(28,441,536)**	**(16,314,036)**
Cash flows from financing activities		
Proceeds from shares issued	17,220,000	-
Proceeds from loans and borrowings	5,729,342	28,914,956
Repayments of loans and borrowings	(12,444,089)	(8,253,088)
Dividends to shareholders, gross of withholding tax	(18,811,250)	(21,878,676)
Loss on financial instruments at fair value through profit or loss	(581,753)	(1,532,856)
Interest paid	(2,555,091)	(1,005,794)
Net cash used in financing activities	**(11,442,841)**	**(3,755,458)**
Net (decrease)/increase in cash and cash equivalents	**(9,966,092)**	**10,794,870**
Cash and cash equivalents at 1 January	11,003,458	343,117
Effect of exchange rate fluctuations on cash and cash equivalents	(140,163)	(134,529)
Cash and cash equivalents at 31 December (note 21)	**897,203**	**11,003,458**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 8 to 51.

1 Background

(a) Business environment

The Group's operations are entirely located in Armenia. Consequently, the Group is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The consolidated financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

Zangezour Copper Molybdenum Combine CJSC (the "Company") and its subsidiary (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, Syuniq District, Republic of Armenia.

The Group's principal activity is mining and the production of copper and molybdenum concentrate, which is sold in the Republic of Armenia and abroad. The Group's operations are regulated by the Exploitation and Exploration License Agreements between the Group and the Ministry of Economy and Ministry of Energy and Natural Resources (the "License Agreements"). According to the License Agreements, the Group's operations are licensed until 2030 (see note 2(e)).

The Group is owned by Cronimet Mining AG (60%), Pure Iron (15%) (51% ultimately owned by Cronimet Ferroleg GmbH), Armenian Molybdenum Production Ltd (12.5%) and Zangezur Mining Ltd (12.5%) (the "Shareholders").

The ultimate parent company of the Group is Cronimet Verwaltungs GmbH, which is controlled by Pilarsky family. Related party transactions are disclosed in note 31.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that:

- property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and
- available-for-sale financial assets and investments at fair value through profit or loss are stated at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 3(d) *Property, plant and equipment* – determination of units of production depreciation calculations
- Note 3(d) *Property, plant and equipment* – useful lives of property, plant and equipment
- Note 24 *Provision for site restoration*

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

- Note 2(e) *Ore reserves* – valuation of mineral reserves that are the basis for future cash flow estimates
- Note 4(f) *Determination of fair values* – determination of the fair values of commodity options
- Note 5 *Acquisition of subsidiary* – determination of the fair value of intangible assets
- Note 6 *Revenue* – determination of the fair values of the embedded derivatives
- Note 15 *Intangible assets* – amortisation of licenses
- Note 28 *Financial instruments and risk management* – fair values of financial instruments classified as level 3 in the fair value hierarchy

(e) Ore reserves and exploitation license

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Group. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. The Group exploits two mines located in Kajaran and Hankasar. Ore reserves of Kajaran mine as at 1 July 2005 were estimated at 2,244,033 thousand tons by "GeoEkonomika" cjsc, a state geological company. Ore reserves of Hankasar mine were estimated at 2,700 thousand tons. Estimates of both mines were approved by the State Committee on reserves of natural resources of the Republic of Armenia. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Group's ore reserve estimates.

The Group operates under two Exploitation Licenses. The Group's Kajaran mine operations are regulated by the License Agreement dated 28 June 2008 between the Company and the Ministry of Economy. According to the License Agreement, the Company's Kajaran mine operations are licensed until 2030. The Group's Hankasar mine operations are regulated by the License Agreement dated 21 April 2008 between the Company and the Ministry of Energy and natural resources. According to the License Agreement, the Company's Hankasar mine operations are licensed until 2027. In preparing these consolidated financial statements management has assumed that the Exploitation Licenses will be prolonged beyond 2030 and 2027. This assumption is based on the provisions of the Concession Law which state that the License is expected to be prolonged if no significant violations of the Licensee's obligations took place during the term of the License.

The Group also holds exploration license for area located near Hankasar mine under exploitation. The exploration operations are licensed till 13 August 2015. Currently the Group is in process of exploration works in the area and no reserve estimates are available yet. In preparing these consolidated financial statements management has assumed that economically feasible reserves will be found in the area and that an exploitation license will be received once exploration activities are completed. The assumption in relation to receipt of exploitation license is based on the provisions of the Concession Law which state that the exploitation license is expected to be given after exploration if no significant violations of the Licensee's obligations took place during the term of the License.

The Group uses the above estimates in evaluating the timing of site restoration costs and in impairment testing of exploration license.

3 Significant accounting policies

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

Certain comparative amounts have been reclassified to conform with the current years presentation. In particular, benefits provided to the employees of the Group of AMD 520,892 thousand were reclassified from donations to social programs (see note 9) to other expenses (see note 10) to achieve better presentation.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

(c) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity and debt securities, trade and other receivables and cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables category comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and current bank accounts.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held to maturity financial assets or financial assets at fair value through profit and loss. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost. Available-for-sale financial assets comprise equity securities.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Derivative financial instruments

Derivative financial instruments comprise financial assets and liabilities at fair value through profit or loss, which represent the fair value of call and put options on copper concentrate. The Group holds commodity options for hedging purposes.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the transaction price at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

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

(iv) Share capital

Ordinary shares

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date ("deemed cost").

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.

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

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 costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is 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 and for mining facilities, depreciation is charged based on the units of production method using the total estimated ore reserves 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 for the current and comparative periods are as follows:

• Buildings	
– certain workshop buildings and constructions	units of production method
– other buildings	4 to 60 years
• Plant and equipment	
– plant and equipment for transportation and removal of waste	units of production method
– other plant and equipment	3 to 90 years
• Mining facilities	units of production method
• Fixtures and fittings	1 to 10 years

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

(e) Intangible assets

(i) Software

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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
- licenses 3 to 25 years

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

(f) Exploration and evaluation assets

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

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

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

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

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

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

(g) Inventories

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

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

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

Loans and receivables

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

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

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

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

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

(i) 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.

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

(j) Provisions

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

(i) Site restoration

In accordance with the Group’s environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

A corresponding asset is recognized in property, plant and equipment. Site restoration costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax risk-free rate. The unwinding of the discount is expensed as incurred and recognized in profit or loss as a finance cost.

At each year end the Group re-measures the provision for site restoration based on the best estimate of the settlement amount and the market-based discount rate.

Changes in the site restoration provision that result from the changes in the estimated timing or amount of outflow of resources embodying economic benefits required to settle the obligation, or a change in discount rate, are added to, or deducted from, the cost of the related asset in the current period. The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in profit or loss.

The depreciable amount of the related asset is depreciated over its useful life. Once the related asset has reached the end of its useful life, all subsequent changes in the site restoration provision are recognised in profit or loss as they occur.

(k) Revenue

(i) Goods sold

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. Transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port.

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

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

(l) 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 in profit or loss as incurred.

(m) Finance income and costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings and net fair value losses on financial assets/liabilities through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) 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.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(o) Royalties

Royalties are the expected payables to the state budget calculated in accordance with guidelines and requirements in the applicable laws and regulations and are based on the profitability levels of licensed operations. 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.

(p) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these financial statements Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively. Comparative disclosure information is not required for periods before the date of initial application. The new Standard will not have any impact on the Group's financial position or performance.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after 1 January 2013 and provides guidance for entities with post-development phase surface mining activities. Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified, future benefits arising from the improved access are probable and the costs related to the stripping activity associated with the component of the ore body are reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Property, plant and equipment

The fair value of property, plant and equipment determined at the date of transition to IFRS and as a result of a business combination and recognised as deemed cost is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach using quoted market prices for similar items when available.

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

(b) Intangible assets

For the determination of the fair value of intangible assets acquired in a business combination see note 5.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(e) Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date.

(f) Derivatives

The fair value of commodity options is based on valuation techniques such as option pricing models.

The fair value of the embedded derivative relating to copper concentrate sales has been calculated using forward prices as at the reporting date quoted in the metal markets. The fair value of the embedded derivative relating to molybdenum concentrate sales has been calculated using the latest quoted metal price as at the reporting date, which the Group considers as an approximation to the forward price in view of the short quotation periods for molybdenum contracts.

(g) Non-derivative financial liabilities

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

5 Acquisition of subsidiary

On 31 July 2012 the Company obtained control of Ler-Ex LLC, a company owning a mining right of molybdenum and copper Hankasar deposit near Kajaran, Syuniq region, Republic of Armenia and an exploration license for an area near Hankasar deposit, by acquiring 100 percent share in the company. The 100% share in Ler-Ex LLC was purchased from individuals for a consideration of AMD 18,719,222 thousand. Purchase of subsidiary was financed by increase in share capital of the Company.

The Group expects that taking control of Ler-Ex LLC will enable the Group to increase production and profit.

From the date of acquisition to 31 December 2012 Ler-Ex LLC contributed a loss of AMD 237,658 thousand. If the acquisition had occurred on 1 January 2012, management estimates that consolidated profit for the year would have been AMD 16,570,083 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

The following summarizes the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

(i) Consideration transferred

	’000 AMD
Cash	15,109,320
Payable for acquisition of subsidiary	3,609,902
Settlement of pre-existing relationship	703,000
Total	**19,422,222**

As a result of the acquisition, advances in the amount of AMD 703,000 thousand paid by the Company to Ler-EX LLC effectively have been settled. The full amount has been included in the consideration transferred as management assessed that fair value of the Company’s receivable approximates its carrying value as at the acquisition date.

(ii) Identifiable assets acquired and liabilities assumed

The identifiable assets acquired and the liabilities assumed were as follows:

’000 AMD	**Recognised fair values on acquisition**
Non-current assets	
Intangible assets	25,115,965
Property, plant and equipment	3,931,092
Exploration and evaluation assets	9,738
Current assets	
Inventories	134,666
Prepaid income tax	786
Other prepaid taxes	281,828
Prepayments for current assets	10,211
Cash and cash equivalents	3,233
Non-current liabilities	
Loans and borrowings	(5,095,027)
Deferred tax liability	(4,863,582)
Current liabilities	
Trade and other payables	(106,688)
Net identifiable assets	**19,422,222**

Intangible assets mainly represent the exploitation license for Hankasar mine and the exploration license for the area located near Hankasar mine (see note 2(e)). Currently the Group is in process of exploration works in the area and no reliable reserve estimates are available yet. The management assumed that the fair value of the licenses approximates the consideration paid net of the fair value of other net assets acquired.

This fair value has been determined provisionally pending completion of reserve estimates under exploration license.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

(iii) Acquisition-related costs

The Group incurred acquisition-related costs of AMD 38,845 thousand related to external legal fees and consulting costs. The legal fees and consulting costs have been included in other expenses in the Group's consolidated statement of comprehensive income.

6 Revenue

'000 AMD	**2012**	**2011**
Revenue from sale of concentrate	116,953,838	94,980,318
Revenue from sale of other products	1,100,806	1,555,312
Total revenues	**118,054,644**	**96,535,630**

Revenues from sale of concentrates:

	2012		**2011**	
	'000 AMD	**Dry metric tonnes**	**'000 AMD**	**Dry metric tonnes**
Molybdenum concentrate	37,278,076	9,899	35,573,602	8,811
Copper concentrate	79,675,762	109,622	59,406,716	84,353
	116,953,838	**119,521**	**94,980,318**	**93,164**

At 31 December 2012 the Group had outstanding provisionally priced sales of AMD 23,900,284 thousand consisting of 22,320 dry metric tonnes of copper concentrate and 1,758 dry metric tonnes of molybdenum concentrate (2011: AMD 24,990,731 thousand consisting of 26,520 dry metric tonnes of copper concentrate and 1,501 dry metric tonnes of molybdenum concentrate), which had a fair value of approximately AMD 24,212,872 thousand including the embedded derivative (2011: AMD 24,523,170 thousand).

All sales of molybdenum concentrate were to related parties (note 31).

7 Cost of sales

’000 AMD	2012	2011
Cost of sales of concentrate	62,513,950	54,935,493
Cost of other sales	1,085,146	1,556,709
	63,599,096	**56,492,202**

Cost of sales of concentrate:

’000 AMD	2012	2011
Materials	27,966,762	23,650,176
Depreciation	14,468,529	11,920,630
Wages and salaries	9,241,073	8,941,919
Electricity and gas	6,678,495	5,545,912
Outsourced services	3,970,210	2,469,177
Other	148,302	163,000
Ecology taxes	40,579	2,244,679
	62,513,950	**54,935,493**

8 Administrative expenses

’000 AMD	2012	2011
Wages and salaries	1,736,394	1,706,634
Internal transportation and car maintenance service	641,767	514,777
Insurance costs and bank charges	252,798	73,497
Depreciation, amortisation and maintenance expenses	59,649	71,499
Other administrative expenses	1,326,310	1,070,359
	4,016,918	**3,436,766**

9 Donations to social programs

’000 AMD	2012	2011
Donations in cash	4,424,397	3,859,824
Property, plant and equipment, inventory and other donations	174,650	24,475
	4,599,047	**3,884,299**

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

10 Other expenses

'000 AMD	**2012**	**2011**
Royalty payments	11,270,565	3,750,400
Employee benefits other than salary	682,481	520,892
Write off of property, plant and equipment	566,590	336,571
Write-down of inventories	91,690	-
Short-term cash bonus accrual	-	920,000
Write off of prepayments given	-	127,951
Other	1,397,221	997,187
	14,008,547	**6,653,001**

Effective from 1 January 2012 the Government of the Republic of Armenia introduced a new Royalty scheme. According to the new scheme, royalty expense consists of two components: royalty calculated at 4% of revenue of AMD 4,665,919 thousand and royalty calculated as 12.5% of taxable income of AMD 6,604,646 thousand, both royalty and taxable income adjusted as per the guidelines and requirements in the applicable laws and regulations.

11 Personnel costs

'000 AMD	**2012**	**2011**
Wages and salaries	11,295,920	11,746,606
Contributions to State pension fund	1,113,765	1,098,425
Employee benefits other than salary	682,481	520,892
	13,092,166	**13,365,923**

12 Finance income and finance costs

’000 AMD	2012	2011
Recognised in profit or loss		
Dividend income	16,667	-
Interest income on bank accounts	18,717	9,890
Finance income	**35,384**	**9,890**
Interest expense on loans and borrowings	(2,357,447)	-
Net losses from financial instruments at fair value through profit and loss	(589,363)	(491,163)
Net foreign exchange loss	(2,016,338)	(927,088)
Finance costs	**(4,963,148)**	**(1,418,251)**
Net finance costs recognised in profit or loss	(4,927,764)	(1,408,361)
Borrowing costs capitalized during the period	**(1,190,345)**	**(854,947)**

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 11.6% (2011: 9.26%). The capitalisation rate was estimated as the weighted average of the borrowing costs applicable to the borrowings of the Group that were outstanding during 2012.

13 Income tax expense

The Group’s applicable tax rate is the income tax rate of 20% (2011: 20%).

’000 AMD	2012	2011
Current tax expense		
Current year	7,286,456	6,826,702
Deferred tax expense		
Origination and reversal of temporary differences	(548,721)	(1,425,682)
Total income tax and expense	**6,737,735**	**5,401,020**

Reconciliation of effective tax rate:

	2012		2011	
	’000 AMD	**%**	**’000 AMD**	**%**
Profit before tax	23,897,967	100	20,470,109	100
Income tax at applicable tax rate	4,779,593	20	4,094,022	20
Non-deductible expenses	1,958,142	8	1,306,998	6
	6,737,735	**28**	**5,401,020**	**26**

14 Property, plant and equipment

'000 AMD	**Land and buildings**	**Plant and equipment**	**Mining Facilities**	**Fixtures and fittings**	**Construction in progress**	**Total**
Deemed cost						
Balance at 1 January 2011	41,623,172	121,917,976	-	472,834	55,296,339	219,310,321
Additions	57,547	1,581,077	-	69,848	14,595,966	16,304,438
Disposals	(293,747)	(419,890)	-	(403)	(213,545)	(927,585)
Transfers	9,623,307	23,439,664	-	-	(33,062,971)	-
Balance at 31 December 2011	**51,010,279**	**146,518,827**	**-**	**542,279**	**36,615,789**	**234,687,174**
Balance at 1 January 2012	51,010,279	146,518,827	-	542,279	36,615,789	234,687,174
Acquisitions through business combination	1,248,610	785,823	1,844,334	7,278	45,047	3,931,092
Additions	374,026	5,330,858	92,710	55,425	13,352,450	19,205,469
Disposals	(10,001)	(1,677,311)	-	(5,779)	(19,919)	(1,713,010)
Transfers	4,272,345	10,218,821	91,582	2,593	(14,585,341)	-
Balance at 31 December 2012	**56,895,259**	**161,177,018**	**2,028,626**	**601,796**	**35,408,026**	**256,110,725**
Depreciation						
Balance at 1 January 2011	5,412,920	31,900,769	-	202,348	-	37,516,037
Depreciation for the year	1,470,790	11,331,233	-	76,976	-	12,878,999
Disposals	(161,935)	(370,597)	-	(268)	-	(532,800)
Balance at 31 December 2011	**6,721,775**	**42,861,405**	**-**	**279,056**	**-**	**49,862,236**
Balance at 1 January 2012	6,721,775	42,861,405	-	279,056	-	49,862,236
Depreciation for the year	1,982,842	13,596,810	10,187	71,916	-	15,661,755
Disposals	(8,295)	(1,170,931)	-	(5,269)	-	(1,184,495)
Balance at 31 December 2012	**8,696,322**	**55,287,284**	**10,187**	**345,703**	**-**	**64,339,496**
Carrying amounts						
At 1 January 2011	36,210,252	90,017,207	-	270,486	55,296,339	181,794,284
At 31 December 2011	44,288,504	103,657,422	-	263,223	36,615,789	184,824,938
At 31 December 2012	**48,198,937**	**105,889,734**	**2,018,439**	**256,093**	**35,408,026**	**191,771,229**

Depreciation expense of AMD 14,468,529 thousand (2011: AMD 11,920,630 thousand) has been charged to cost of goods sold, AMD 59,928 thousand (2011: AMD 71,288 thousand) to administrative expenses, AMD 204,836 thousand (2011: AMD 94,022 thousand) to other expenses, AMD 72,717 thousand to inventories (work in progress) (2011: nil).

During 2012 borrowing costs of AMD 1,190,345 thousand (2011: AMD 854,947 thousand) were capitalized on construction in progress.

15 Intangible assets

	Software	**Development costs**	**Licenses**	**Total**
Cost				
Balance at 1 January 2011	152,099	1,365,686	-	1,517,785
Other acquisitions - separately acquired	-	7,936	-	7,936
Balance at 31 December 2011	**152,099**	**1,373,622**	**-**	**1,525,721**
Balance at 1 January 2012	152,099	1,373,622	-	1,525,721
Acquisitions through business combination	255	-	25,115,710	25,115,965
Balance at 31 December 2012	**152,354**	**1,373,622**	**25,115,710**	**26,641,686**
Amortization				
Balance at 1 January 2011	89,335	-	-	89,335
Impairment losses	-	1,346,686	-	1,346,686
Amortization for the year	9,962	-	-	9,962
Balance at 31 December 2011	**99,297**	**1,346,686**	**-**	**1,445,983**
Balance at 1 January 2012	99,297	1,346,686	-	1,445,983
Amortization for the year	9,239	-	-	9,239
Balance at 31 December 2012	**108,536**	**1,346,686**	**-**	**1,455,222**
Carrying amounts				
At 1 January 2011	62,764	1,365,686	-	1,428,450
At 31 December 2011	52,802	26,936	-	79,738
At 31 December 2012	**43,818**	**26,936**	**25,115,710**	**25,186,464**

Intangible assets acquired in business combination represent the exploitation license for Hankasar mine and the exploration license for the area located near Hankasar mine. The fair value of these licenses has been determined provisionally pending completion of reserve estimates under exploration license (see note 5). Because of the above, management has not accrued amortization charge for the licenses during 2012. The management assumes that the impact of the expected amortisation would be immaterial to the consolidated profit or loss for the year ended 31 December 2012.

16 Exploration and evaluation assets

AMD'000	**31 December 2012**	**1 January 2012**
Exploration and evaluation assets	**94,191**	**-**

The Group holds exploration license regulated by the License Agreement dated 13 November 2012 between the Group and the Ministry of Energy and Natural Resources. According to the License Agreement, the Group's exploration operations are licensed till 13 August 2015 and relate to the mine area located near the current mine being under exploitation. Exploration and evaluation expenditures of AMD 94,191 thousand at 31 December 2012 relate to costs incurred on the exploration and evaluation of potential mineral reserves and include costs for exploratory drilling performed by outsourced company.

17 Available-for-sale investments

'000 AMD	**2012**	**2011**
Available-for-sale investments measured at fair value	**370,000**	**370,000**

The fair value of available-for-sale equity investments of AMD 370,000 thousand was determined by reference to their quoted market prices; these investments are listed in the NASDAQ OMX Armenia.

The Group's exposure to credit, currency and interest rate risks related to available-for-sale investments is disclosed in note 28.

18 Prepayments and advances

'000 AMD	**2012**	**2011**
Prepayments for non-current assets		
Prepayments for property, plant and equipment	1,019,934	2,738,589
Prepayments for current assets		
Prepayments for inventory	873,046	821,609
Other	458,155	154,687
	1,331,201	976,296
	2,351,135	**3,714,885**

19 Inventories

’000 AMD	2012	2011
Raw materials and consumables	6,822,951	5,995,106
Spare parts	4,483,128	5,179,011
Construction materials	170,551	115,705
Finished goods	898,689	516,950
Work in progress	578,725	-
Other	710,096	540,394
	13,664,140	**12,347,166**
Write-down of inventories in the current year	(91,690)	-
Reversal of previous write downs	-	9,980

20 Trade and other receivables

’000 AMD	2012	2011
Trade receivables – sales of concentrates	176,195	294,282
Trade receivables – sale of other products	176,588	148,473
Other receivables	98,519	79,174
Trade and other receivables included in loans and receivables category	**451,302**	**521,929**
Value added tax recoverable	672,387	366,797
Total trade and other receivables	**1,123,689**	**888,726**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

21 Cash and cash equivalents

’000 AMD	2012	2011
Petty cash	13	220
Bank balances	897,190	11,003,238
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**897,203**	**11,003,458**

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

22 Capital and reserves

(a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	**2012**	**2011**
Authorised shares		
Par value	AMD 20,000	AMD 20,000
On issue at 1 January	1,887,334	1,887,334
Issued for cash	861,000	-
On issue at 31 December, fully paid	**2,748,334**	**1,887,334**

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

In July and October 2012 general meetings of shareholders decided on the issue of 615,000 and 246,000 ordinary shares respectively at par value of AMD 20,000 per share (2011: nil).

(b) Dividends

In accordance with Armenian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards, except for restrictions on retained earnings as described below.

According to legal requirements, the Group is required to create a non-distributable reserve from its retained earnings for an amount equal to 15% of its share capital for the purpose of covering future losses.

In 2012 dividends to the ordinary shareholders of AMD 6,000,000 thousand in total (2011: AMD 25,000,000 thousand) or AMD 3,179 per issued share (2011: AMD 13,246 per share) were declared to the shareholders. The dividends were declared to shareholders prior to issue of share capital during 2012.

23 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 28.

'000 AMD	**2012**	**2011**
Non-current liabilities		
Secured bank loans and credit lines	11,800,621	21,032,442
Unsecured borrowings from shareholders	3,793,652	1,157,310
	15,594,273	**22,189,752**
Current liabilities		
Secured bank loans and credit lines	12,824,057	7,905,787
Unsecured borrowings from shareholders	1,781,725	827,143
	14,605,782	**8,732,930**

In December 2011 the Group received a syndicated loan of USD 75,000 thousand from European financial institutions. The loan is secured by the Group's copper concentrate sales agreement with one of its unrelated customers. Simultaneously the Group entered into call and put options agreement to manage the bank's risk of change in the prices of the collateral (see note 26).

As at 31 December 2012 plant and equipment of AMD 97,024 thousand, bank balances, Hankasar closed mine exploitation license and 100% share in the subsidiary are pledged under the bank loan agreements and credit lines. At 31 December 2012, the carrying amount of net assets of subsidiary amounted to AMD 251,019 thousand.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2012		31 December 2011	
’000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	USD	Libor+4.95%	2014	22,013,455	22,163,087	28,932,750	28,927,409
Unsecured borrowings from shareholders	USD	Libor+7%	2017	4,358,664	4,358,664	-	-
Unsecured borrowings from shareholders	USD	Libor+8%	2014	1,210,740	1,216,713	1,928,850	1,938,478
Secured bank loan	AMD	14%	2014	665,571	665,571	-	-
Secured bank loans	USD	14%	2014	474,873	474,873	-	-
Secured bank credit line	USD	11%	2013	405,405	405,405	-	-
Secured bank credit line	USD	10%	2013	403,580	403,580	-	-
Secured bank loan	USD	14%	2016	274,206	274,206	-	-
Secured bank loan	USD	14%	2015	234,618	234,618	-	-
Secured bank credit line	USD	11%	2013	-	3,338	-	10,820
Unsecured borrowings from shareholders	USD	7.5%	2011	-	-	-	45,975
Total interest-bearing liabilities				**30,041,112**	**30,200,055**	**30,861,600**	**30,922,682**

24 Provision for site restoration

’000 AMD	**2012**
Balance at 1 January	-
Recognition of site restoration provision	1,763,745
Balance at 31 December	**1,763,745**

(a) Site restoration

The provision of site restoration is in respect of the Group’s 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 total amount of the estimated cash flows required to settle the obligation is AMD 3,430,407 thousand considering the effect of average forecasted inflation rate of 4.04% for Armenia. An annual discount rate of 11.4% was used to discount restoration costs to be made in 8 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 2012. The discount rate represents the nominal risk free rate (rate for long term Armenian Government bonds) adjusted for estimated country risk premium.

During the year, the Group's site restoration obligation was 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. As at 31 December 2012 no such act was issued by the Government.

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. As of the date these consolidated financial statements were authorized for issue the management has not sent the calculations for approval by the state authorities.

25 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
'000 AMD	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Property, plant and equipment	52,117	-	(18,386,132)	(18,875,663)	(18,334,015)	(18,875,663)
Intangible assets	-	269,337	(5,014,048)	-	(5,014,048)	269,337
Inventories	21,310	466	-	-	21,310	466
Trade and other receivables	8,726	117,521	-		8,726	117,521
Advances received for provisionally priced sales	123,044	286,768	-	-	123,044	286,768
Trade and other payables	192,000	184,000	(1,122)	-	190,878	184,000
Loans and borrowings	28,033	-	-	-	28,033	-
Financial assets at fair value through profit or loss	-	-	-	(20,330)	-	(20,330)
Financial liabilities at fair value through profit or loss	198,033	69,838	-	-	198,033	69,838
Provision for site restoration	352,749	-	-	-	352,749	-
Tax loss carry-forwards	142,366		-	-	142,366	-
Tax assets/(liabilities)	1,118,378	927,930	(23,401,302)	(18,895,993)	(22,282,924)	(17,968,063)
Set-off of taxes	(916,169)	(927,930)	916,169	927,930	-	-
Net tax assets/(liabilities)	**202,209**	**-**	**(22,485,133)**	**(17,968,063)**	**(22,282,924)**	**(17,968,063)**

(b) Movement in temporary differences during the year

’000 AMD	1 January 2012	Acquired through business combination	Recognised in profit or loss	31 December 2012
Property, plant and equipment	(18,875,663)	43,464	498,184	(18,334,015)
Intangible assets	269,337	(5,014,048)	(269,337)	(5,014,048)
Inventories	466	6,308	14,536	21,310
Trade and other receivables	117,521	-	(108,795)	8,726
Advances received for provisionally priced sales	286,768	-	(163,724)	123,044
Trade and other payables	184,000	(800)	7,678	190,878
Loans and borrowings	-	-	28,033	28,033
Financial assets at fair value through profit or loss	(20,330)	-	20,330	-
Financial liabilities at fair value through profit or loss	69,838	-	128,195	198,033
Provision of site restoration	-	-	352,749	352,749
Tax loss carry-forwards	-	101,494	40,872	142,366
	(17,968,063)	**(4,863,582)**	**548,721**	**(22,282,924)**

’000 AMD	1 January 2011	Recognised in profit or loss	31 December 2011
Property, plant and equipment	(19,371,342)	495,679	(18,875,663)
Intangible assets	-	269,337	269,337
Inventories	(8,176)	8,642	466
Trade and other receivables	(298,743)	416,264	117,521
Advances received for provisionally priced sales	26,667	260,101	286,768
Trade and other payables	80,680	103,320	184,000
Financial assets at fair value through profit or loss	-	(20,330)	(20,330)
Financial liabilities at fair value through profit or loss	177,169	(107,331)	69,838
	(19,393,745)	**1,425,682**	**(17,968,063)**

26 Financial instruments at fair value through profit or loss

Financial liabilities at fair value through profit or loss of AMD 990,164 thousand (2011: financial liabilities of AMD 349,188 thousand and financial assets of AMD 101,648 thousand) represent the fair value of call and put options on copper with two counterparties. The options expire in September 2014.

The fair value determined at the initial recognition date using option pricing model of AMD 2,068,374 thousand (USD 5,362 thousand) has been considered as transaction cost and has been included in the amortised cost of the loan (see note 23) because the management believes that the initial loss on the financial instrument represents part of the cost to obtain the loan.

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 28.

27 Trade and other payables

’000 AMD	**2012**	**2011**
Payables for acquisitions of inventory and property, plant and equipment	4,315,573	3,916,903
Trade and other payables included in other financial liabilities category	**4,315,573**	**3,916,903**
Salaries and related taxes payable	1,782,319	1,573,879
Withholding taxes payable	-	648,398
Royalty payable	83,768	-
Other payables and accrued expenses	378,993	244,221
Other payables	**2,245,080**	**2,467,498**
	6,560,653	**6,384,401**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

28 Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

The 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.

(b) Credit risk

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

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.

(i) Exposure to credit risk

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

	Carrying amount	
'000 AMD	**2012**	**2011**
Bank balances	897,190	11,003,238
Trade and other receivables	451,302	521,929
Financial assets at fair value through profit and loss	-	101,648
	1,348,492	**11,626,815**

(ii) Trade 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. Approximately 45% (2011: 49%) of the Group's revenue is attributable to sales transactions with related parties.

The rest of the revenue is attributable to sales transactions with three (2011: two) customers. No losses have occurred so far on the Group's trade receivables.

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

	Carrying amount	
'000 AMD	**2012**	**2011**
Domestic	**352,783**	**442,755**

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

	Carrying amount	
'000 AMD	**2012**	**2011**
Copper and molybdenum customers	176,195	294,282
Other products customers	176,588	148,473
	352,783	**442,755**

Impairment losses

The aging of trade receivables at the reporting date was:

'000 AMD	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	352,783	-	442,755	-

(iii) Investments

The Group limits its exposure to credit risk by investing only in liquid securities and dealing with counterparties that have a high credit rating.

(iv) Bank balances

The Group held bank balances of AMD 897,190 thousand at 31 December 2012 (2011: AMD 11,003,238 thousand), which represents its maximum credit exposure on these assets. At 31 December 2012 19% of total exposure is held with an A+ rated bank by Fitch (2011: AMD 91%). The remaining 71% of total exposure at 31 December 2012 is held with top 10 Armenian banks.

(c) Liquidity risk

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

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. As at 31 December 2012 the Group had available unutilized credit lines and overdrafts of AMD 3,681,720 thousand.

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

2012

’000 AMD	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-5 yrs
Non-derivative financial liabilities						
Secured bank loan	24,624,678	27,616,893	6,971,260	7,705,546	12,747,430	192,657
Unsecured borrowings from shareholders	5,575,377	6,498,087	1,099,070	1,112,397	1,644,785	2,641,835
Trade and other payables	4,315,573	4,315,573	4,315,573	-	-	-
Payable for acquisition of subsidiary	3,609,902	3,609,902	-	3,609,902	-	-
Advances received for provisionally priced sales	7,137,644	7,137,644	7,137,644	-	-	-
Issued financial guarantee (see note 31)	-	400,000	400,000	-	-	-
	45,263,174	**49,578,099**	**19,923,547**	**12,427,845**	**14,392,215**	**2,834,492**
Derivative financial liabilities						
Financial liabilities at fair value through profit or loss	990,164	990,164	(11,905)	278,153	723,916	-
	990,164	**990,164**	**(11,905)**	**278,153**	**723,916**	**-**

2011

’000 AMD	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-5 yrs
Non-derivative financial liabilities						
Secured bank loan	28,938,229	32,446,175	4,333,696	5,907,140	11,382,548	10,822,791
Unsecured borrowings from shareholders	1,984,453	2,227,715	523,200	451,879	851,980	400,656
Trade and other payables	3,916,903	3,916,903	3,916,903	-	-	-
Advances received for provisionally priced sales	7,647,022	7,647,022	7,647,022	-	-	-
	42,486,607	**46,237,815**	**16,420,821**	**6,359,019**	**12,234,528**	**11,223,447**
Derivative financial liabilities						
Financial liabilities at fair value through profit or loss	349,188	349,188	30,523	55,378	143,758	119,529
	349,188	**349,188**	**30,523**	**55,378**	**143,758**	**119,529**

The disclosure above shows net cash flow amounts for derivatives as they are net cash settled. The contractual cash flows of the secured bank loan include the cash flows from transaction costs and estimated settlement of the unrecognised loss on financial instruments through profit or loss (see note 26).

(d) Market risk

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

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group, primarily U.S. Dollars (USD).

Generally, 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.

Exposure to currency risk

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

'000 AMD	**USD-denominated 2012**	**USD-denominated 2011**
Trade and other receivables	261,249	334,656
Financial assets at fair value through profit or loss	-	101,648
Cash and cash equivalents	171,548	10,857,601
Loans and borrowings	(29,534,484)	(30,922,682)
Advances received for provisionally priced sales	(7,137,644)	(7,647,022)
Trade and other payables	(1,262,717)	(2,382,878)
Financial liabilities at fair value through profit or loss	(990,164)	(349,188)
Net exposure	**(38,492,212)**	**(30,007,865)**

The following significant exchange rates applied during the year:

in AMD	**Average rate**		**Reporting date spot rate**	
	2012	**2011**	**2012**	**2011**
USD	401.74	372.76	403.58	385.77

Sensitivity analysis

A 10% strengthening/(weakening) of the AMD, as indicated below, against USD at 31 December would have increased (decreased) equity and profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	Strengthening		Weakening	
'000 AMD	**Equity**	**Profit or loss**	**Equity**	**Profit or loss**
31 December 2012	-	3,849,221	-	(3,849,221)
31 December 2011	-	3,000,787	-	(3,000,787)

(ii) Interest rate risk

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

Profile

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

	Carrying amount	
'000 AMD	**2012**	**2011**
Fixed rate instruments		
Financial liabilities	(2,461,591)	(56,795)
Variable rate instruments		
Financial liabilities	(27,738,464)	(30,865,887)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased the projected (decreased) profit or loss before taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates and the balance of financial liabilities remain constant.

	Profit or loss	
’000 AMD	**100 bp increase**	**100 bp decrease**
2012		
Variable rate instruments	(277,385)	277,385
2011		
Variable rate instruments	(308,659)	308,659

(iii) Commodity price risk

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

Sensitivity analysis

A change of 10% in forward prices of copper and molybdenum at the reporting date in relation to provisionally priced sales would have affected profit or loss before taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

	Effect in profit or loss	
’000 AMD	**Favourable**	**Unfavourable**
2012		
10% changes in the forward prices	2,336,210	(2,337,125)
2011		
10% changes in the forward prices	950,656	(1,989,606)

A sensitivity analysis of financial instruments at fair value through profit or loss (copper options) is disclosed in note 28(f).

(e) Fair values versus carrying amounts

The management believes that the fair value of its financial assets and liabilities approximates their carrying values.

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

The interest rates used to discount estimated cash flows, where applicable, are based on market interest rates for similar instruments and were as follows:

	2012	**2011**
Loans and borrowings	9%-12%	9% - 12%

(f) Fair value hierarchy

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

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

'000 AMD	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2012				
Derivatives embedded in sales contracts	-	129,127	183,461	312,588
Available for sale investments	370,000	-	-	370,000
Financial liabilities at fair value through profit or loss	-	-	(990,164)	(990,164)
	370,000	**129,127**	**(806,703)**	**(307,576)**
31 December 2011				
Derivatives embedded in sales contracts	-	(496,342)	28,781	(467,561)
Available for sale investments	370,000	-	-	370,000
Financial assets at fair value through profit or loss	-	-	101,648	101,648
Financial liabilities at fair value through profit or loss	-	-	(349,188)	(349,188)
	370,000	**(496,342)**	**(218,759)**	**(345,101)**

Level 2 Derivatives embedded in copper sales contracts

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

Level 3 Financial liabilities at fair value through profit or loss

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of financial instruments at fair value through profit or loss (copper options) in Level 3 of the fair value hierarchy:

'000 AMD	**2012**	**2011**
Balance at 1 January	(247,540)	(885,840)
Total losses recognised in profit or loss from level 3 instruments not held at year end	-	(243,623)
Total losses recognised in profit or loss from level 3 instruments held at year end	(589,363)	-
Transfers into level 3 of the fair value determined at the initial recognition date of options expired in 2012	(539,942)	-
Effect of foreign exchange rate fluctuations	(195,072)	-
Settlement	581,753	1,129,463
Issues	-	(247,540)
Balance at 31 December	**(990,164)**	**(247,540)**

The fair value of financial instruments at fair value through profit or loss was measured using the Black-Scholes model for option pricing.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements of financial instruments at fair value through profit or loss (copper options) in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

	Effect in profit or loss	
'000 AMD	**Favourable**	**Unfavourable**
10% changes in the annual volatility	120,062	(133,904)

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values. Key inputs and assumptions used in the model at 31 December 2012 include:

- Current market price of copper of USD 7,907;
- Annual volatility of the market prices of copper of 21%.

Level 3 Derivatives embedded in molybdenum sales contracts

Derivatives embedded in sales contracts related to molybdenum concentrate are classified as a level 3 asset. Because of the lack of observable forward prices for molybdenum concentrate, the fair value of the embedded derivative has been calculated using the latest quoted metal price as at the balance sheet date, which the Group considers as an approximation to the forward price in view of the short quotation periods for molybdenum contracts.

(g) 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, 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.

29 Contingencies

(a) Insurance

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

(b) 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 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.

30 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 2012, LME monthly average closing spot prices ranged from USD 7,420 to USD 8,457 per ton for copper. The LME spot copper price closed at USD 7,329 per ton on 17 May 2013.

A sustained period of low copper prices would adversely affect the Group's profits and cash flows.

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 31,206 per ton during 2012 in comparison with USD 33,794 per ton during 2011. The LME spot price of USD 24,250 per ton of molybdenum was registered on 17 May 2013.

A sustained period of low molybdenum prices would adversely affect the Group's profits and cash flows.

31 Related party transactions

(a) Control relationships

In accordance with Government Decree No 1677-A dated 9 December 2004 the Company was privatised by the state and commencing 1 January 2005 the ownership structure of the Group is as follows:

Cronimet Mining AG	60%
Pure Iron (51% owned by Cronimet Ferroleg GmbH)	15%
Armenian Molybdenum Production Ltd	12.5%
Zangezur Mining Ltd	12.5%

The shareholders of Zangezur Mining Ltd are the Company's key management.

The ultimate parent of the Group is Cronimet Verwaltungs GmbH which is controlled by Pilarsky family.

Publicly available financial information is produced by the Group's parent company.

(b) Transactions with key management personnel

Key management and their close family members control 12.5% of the voting shares of the Company.

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 11):

'000 AMD	**2012**	**2011**
Salaries and bonuses	606,094	866,837
Contributions to State pension fund	31,460	30,535
	637,554	**897,372**

(ii) Other transactions with management

In July 2012 the Group guaranteed the credit line of the General Director under an agreement with a bank for AMD 400,000 thousand.

(c) Other related party transactions

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

(i) Revenue

'000 AMD	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Sale of molybdenum concentrate:				
Shareholders	36,717,315	35,573,602	(1,989,739)	(370,013)
Sale of copper concentrate:				
Entity under significant influence of the ultimate controlling party	15,857,427	12,429,272	(1,274,111)	(1,438,794)
Sale of other products:				
Entities under significant influence of senior management	256,713	390,757	42,880	14,916
Services provided (other income):				
Entities under significant influence of senior management	3,901	2,044	834	-
	52,835,356	**48,395,675**	**(3,220,136)**	**(1,793,891)**

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. Transaction value of sale of molybdenum and copper concentrate with related parties does not include the derivatives embedded in sales contracts.

(ii) Expenses

'000 AMD	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Purchase of materials:				
Shareholders	-	4,160	-	(55,505)
Entities under significant influence of senior management	2,154,940	3,141,538	(76,638)	(152,665)
Services received:				
Parent company	5,172	-	(1,488)	-
Entities under significant influence of senior management	2,032,081	1,785,369	(167,274)	-
	4,192,193	**4,931,067**	**(245,400)**	**(208,170)**

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

(iii) Loans

'000 AMD	Amount loaned 2012	Amount loaned 2011	Outstanding balance 2012	Outstanding balance 2011
Loans received:				
Shareholder	(4,917,200)	-	(5,575,377)	(1,984,453)
	(4,917,200)	**-**	**(5,575,377)**	**(1,984,453)**

The loans from the Company's shareholder company bear interest at Libor+8% and Libor+7% per annum and are repayable in 2014 and 2017 respectively.

(d) Pricing policies

Starting from 2006 prices and quantities for the sale of molybdenum concentrate to related parties are determined at the shareholders' meetings. The prices are based on the Metals Week average price for ferromolybdenum less estimated refining charges. In accordance with a decision made during the December 2011 shareholders' meeting all molybdenum concentrate to be produced in 2012 was to be sold to the shareholders (60% to "Pure Iron" OJSC and 40% to "Armenian Molybdenum Production" Ltd).

The following sale transactions were determined for the sale of molybdenum and copper concentrates for the year ending 31 December 2013 in accordance with a decision made during the December 2012 shareholders' meeting:

	2013 Molybdenum concentrate Tonnes (WMT)	2013 Copper concentrate Tonnes (WMT)
"Pure Iron" OJSC	6,600	-
"Armenian Molybdenum Production" Ltd	4,400	-
Entity under significant influence of the ultimate controlling party	-	45,000
Other unrelated entities	-	100,000
	11,000	**145,000**

32 Significant subsidiaries

Subsidiary	Country of incorporation	2012 Ownership/voting	2011 Ownership/voting
Ler-Ex LLC	Republic of Armenia	100%	-

During 2012 the Group acquired 100% share in Ler-Ex LLC.