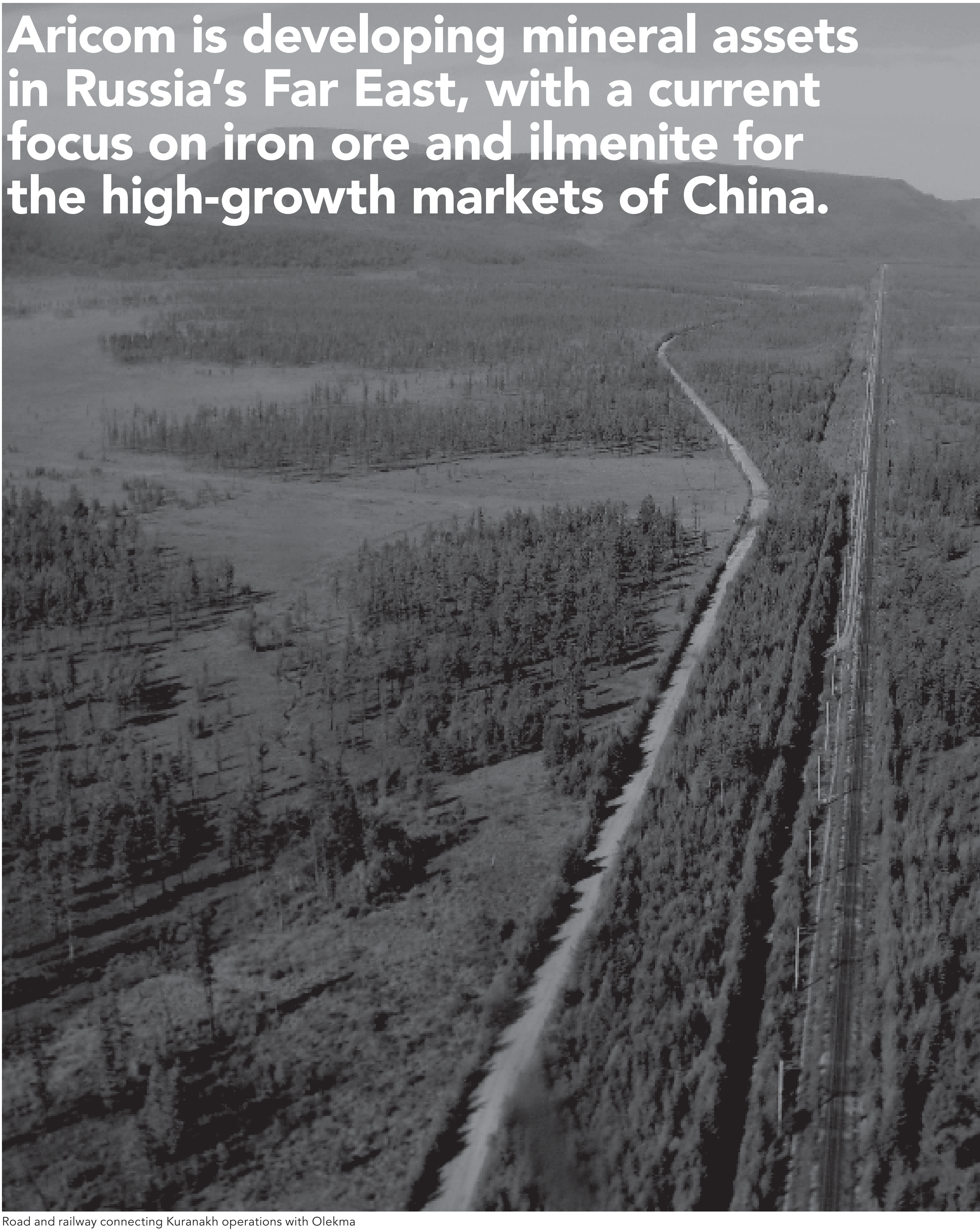
ARICOM
АРИКОМ

Aricom plc Annual Report 2008

Anglo-Russian Industrial Commodities

Aricom plc Annual Report 2008

Aricom is developing mineral assets in Russia's Far East, with a current focus on iron ore and ilmenite for the high-growth markets of China.



Road and railway connecting Kuranakh operations with Olekma

Contents

Highlights

- **Strong cash balance of US$257 million at year end**
- **First sales of pre-concentrate iron ore achieved at Kuranakh**
- **Kuranakh crushing and screening plant operational although sales of pre-concentrate suspended until beneficiation plant operational in H2 2009**
- **Combined feasibility study completed for K&S and Garinskoye projects, however, progress delayed due to slow project finance markets**
- **Two acquisitions completed extending K&S and Garinskoye projects**
- **Titanium sponge joint venture established in China with Chinalco**
- **Bridge project across Amur River approved by Chinese and Russian governments**
- **Economic downturn leading to falling commodity prices and challenging project finance market**
- **Impairment charge of US$386 million in recognition of downturn and consequential delay to projects**
- **Proposed recommended merger of Peter Hambro Mining and Aricom announced**

Key Financial Information

	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	Year ended 31 December 2008
Net assets	17,688	527,405	1,142,396	757,866
Net cash equivalents and short-term investments	(566)	89,668	498,478	257,822
Net (loss)/profit	(3,748)	(2,582)	111	(426,600)
(Loss)/earnings per share	(0.03)	(0.01)	0.00	(0.38)

All figures in the above table are in US$'000 except EPS which is in US$ per share. Aricom plc's Key Performance Indicators are contained within the above table and selected highlights.

Group Overview

Mining operations at Kuranakh

Geography

Aricom is focused on finding, developing and operating industrial commodity projects in Russia's Far East. The regions are rich in mineral resources but of key importance to Aricom is the good regional transport infrastructure as well as close proximity to China – home to the largest growing market for industrial commodities.

Kuranakh – 100% owned

- **Geology**
  Medium sized titanomagnetite iron ore and ilmenite deposit
- **Development Stage**
  Mining commenced and first sales achieved. Completion due in H2 2009
- **Forecast Production**
  Annual average sales estimates of 900ktpa iron ore and 290ktpa ilmenite at full production

Ore being loaded into crushing and screening plant at Kuranakh

K&S – 100% owned

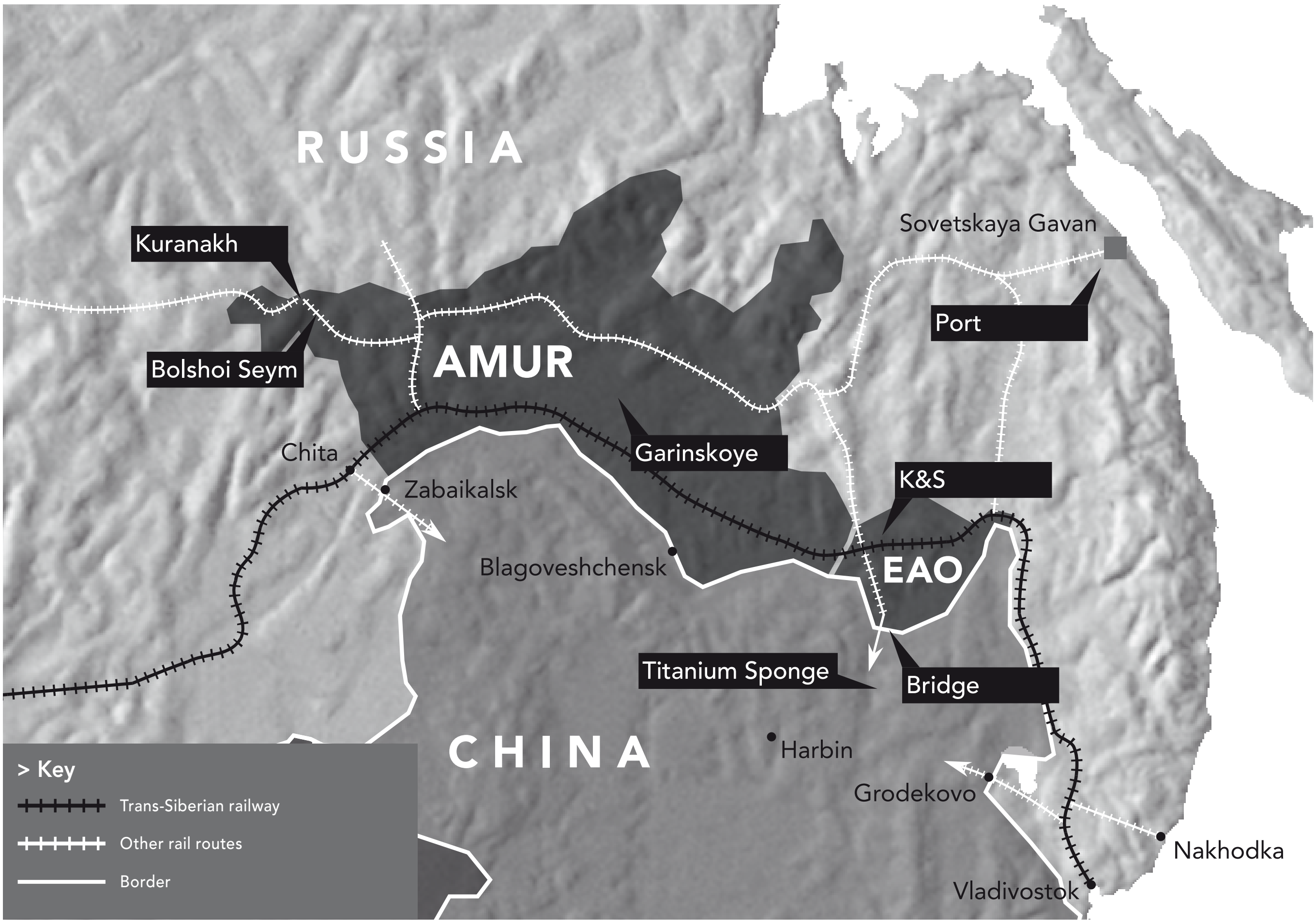
- **Geology**
  Large magnetite iron ore deposit
- **Development Stage**
  Combined K&S and Garinskoye feasibility study completed. Alternative development plans in place
- **Future Production Potential**
  Annual average production estimate of 3.6mtpa iron ore concentrate and potential to beneficiate to pig iron under combined scenarios

New federal road next to K&S

Garinskoye – 99.6% owned

- **Geology**
  Large magnetite iron ore deposit
- **Development Stage**
  Combined K&S and Garinskoye feasibility study completed. Confirmation drilling completed
- **Future Production Potential**
  Annual average production estimate of 4.6mtpa iron ore concentrate and potential to beneficiate to pig iron under combined scenarios

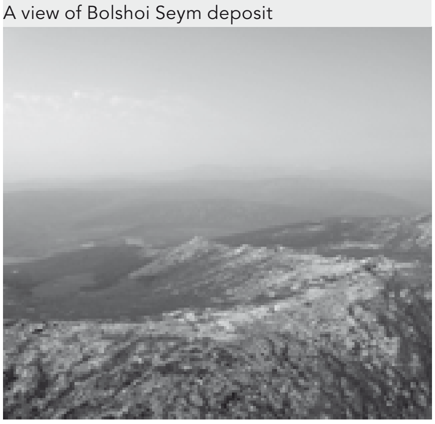
A view of Garinskoye



Bolshoi Seym – 49% associate

- **Geology**
  Medium sized ilmenite and magnetite iron ore deposit
- **Development Stage**
  Early stage exploration
- **Future Production Potential**
  Two concentrates: ilmenite and iron ore (titanomagnetite)

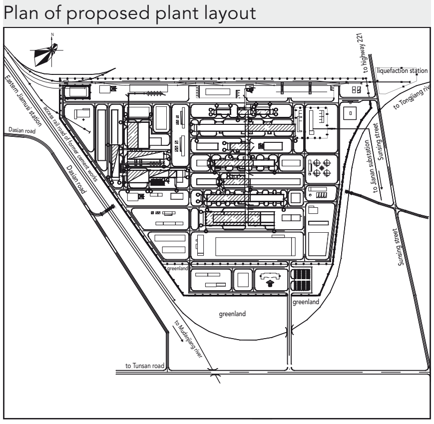
A view of Bolshoi Seym deposit



Titanium sponge plant – 65% joint venture

- Creation of the joint venture in China with Chinalco
- Completion of preliminary design of processing plant and equipment
- Start of works at project site in Jiamusi
- Tenders launched for plant and machinery

Plan of proposed plant layout



Infrastructure projects

- **Bridge**
  Intention to participate in the construction of a bridge over the Amur River between Russia and China
- **Port**
  Viability of design and construction of a 7mtpa iron ore transhipment terminal in Russia's Far East under review

Current port at Sovetskaya Gavan

Aricom's Unique Position

Pre-concentrate from Kuranakh being loaded onto wagons at Olekma

Projects

- **Kuranakh generates first revenues**
- **Combined K&S and Garinskoye feasibility study completed**
- **Kostenginskoye and Garinskoye Flanks acquisitions completed providing natural expansion potential to the K&S and Garinskoye projects respectively**

Portfolio

Aricom's pipeline of mining projects as well as its infrastructure opportunities has focused the Group on creating a low cost Anglo-Russian industrial commodities champion. Crucial construction and operational experience has been obtained at the Kuranakh mine which generated its first revenues in June 2008. The key K&S and Garinskoye projects have taken further developmental steps with the completion of the combined feasibility study. There remains the opportunity to move further up the value chain through Aricom's titanium sponge joint venture and the potential to upgrade K&S's processed iron ore to pig iron.

Mining supervisor at Kuranakh

People

- **Continuing focus on the challenge of recruitment and training of local talent**
- **Management incorporating Russian operational expertise and Western market and corporate experience**
- **By 31 December 2008, 985 people were employed by the Group**

A cornerstone of the Company's development is our people. As the portfolio develops, Aricom has increased its recruitment drive with various initiatives including advertising campaigns, management training programmes and university scholarships, mostly concentrated on the Amur and EAO regions.

Regional map of Russian/Chinese border

Geography

- **Close proximity to Russian-Chinese border**
- **Long term freight advantage compared to global industrial commodities producers**

China remains the key market for Aricom. With the benefit of local rail transportation, Aricom continues to believe that the combination of an abundance of mineral resources and proximity to China is a valuable combination of geology and geography. The nearby Heilongjang region of China has a number of steel plants and in the medium term, the Chinese market for iron ore is expected to grow further.


BAM railway at Kuranakh

Infrastructure

- **Advantageous location of projects close to Trans-Siberian and BAM railroads**
- **Access to locally generated hydroelectric power and the national grid**
- **Potential for further cost advantages through construction of planned bridge south of K&S into China**

Rail

All of the assets within the portfolio are planned to be connected to the rail network. Both the Trans-Siberian and BAM railways pass through the Amur region with the Trans-Siberian continuing into the EAO and running some 4km from the planned plant site for the K&S deposit. This proximity to rail infrastructure is expected to give Aricom significant cost advantages.

Power

Aricom's proposed operations are in areas that have access to the national grid and to the power provided from hydroelectric power stations located in this part of Russia.

Port

Aricom is studying the viability of design and construction of a 7mtpa iron ore port in Russia's Far East to provide access to the global sea borne market.

Timeline

2008

January
Completion of a feasibility study for development of a titanium sponge production plant and the execution of a binding Memorandum of Understanding with Chinalco, the largest non-ferrous metals company in China.

March
Acquisition of options to purchase Kostenginskoye and Garinskoye Flanks licences providing significant natural expansion potential to the existing K&S and Garinskoye projects respectively.

May
Formal process commenced for the funding of construction and development for the K&S and Garinskoye iron ore projects.

June
Aricom achieves first revenue from Kuranakh project.

Pre-concentrate from Kuranakh being loaded onto wagons at Olekma

August
Titanium sponge joint venture with Chinalco established.

September
Acquisition of Garinskoye Flanks and Kostenginskoye licences completed.

October
Completion of combined feasibility study for Garinskoye and K&S projects proving viability of both projects and independently reviewed by industry leading consultants.

November
Aricom signs Memorandum of Understanding with MCC relating to the construction of a beneficiation plant at K&S.

2009

February
Announcement of the firm intention of Peter Hambro Mining to pursue a recommended merger with Aricom which will, upon completion, create a mining industry leader in the Far East of Russia.

February
Aricom announces a revised K&S development plan.

Chairman's Statement

Dr Pavel Maslovskiy, left with Jay Hambro, right

Aricom's portfolio of assets has seen a number of significant advances during 2008 and it was therefore disappointing not to see them reflected in the year-on-year share price performance which was understandably impacted by the global economic crisis.

In 2008, we saw our first sales revenue at Kuranakh and whilst the contribution from these early stage sales was not material, the testing of the Group's logistics division has been invaluable and has proved our ability to produce and ship our product to market. I am confident that we will be fully commissioned by the end of 2009 at both the Kuranakh and Olekma plants which will see production of two profitable products.

In October, we published the feasibility studies on the combined K&S and Garinskoye project which showed an attractive investment return whilst maintaining a maximum funding requirement similar to that announced a year earlier. This was the culmination of a year's work and has been fully independently reviewed. I believe this to be a credit to the strength of the projects and the Aricom team.

External global market and credit factors have weakened perceptions of the global mining sector during the last quarter of 2008 and in recognition of this new paradigm, we are re-working the project economic analysis in order to develop a more efficient funding structure. Pre-concentrate sales at Kuranakh have been suspended due to a weakening of demand although demand for our final products remains strong.

Despite the share price performance over the last quarter, I believe that the fundamentals supporting the Aricom investment proposition remain strong and that we are arguably better positioned than many of our peers, with an enviable cash position at the start of 2009 of over a quarter of a billion dollars and no debt.

Due to the current crisis, as with many other mining companies, the Board of Aricom has reviewed the Company's portfolio of assets and has provided for impairment where it is considered appropriate to do so. In Aricom's situation this figure is material due to the sharp economic downturn and movement in the Group's share price, particularly versus the Balance Sheet value of the Group's assets. Further information on impairment provisions is detailed in the Financial Review on page 40.

I would like to thank all the people who work within the Group and to welcome those who joined during 2008. Whilst we are doing our utmost to reduce costs, I believe that one of the Company's most valuable assets is our human resource and we will continue to grow our key skill base as we move toward positive cash flows.

With cautious optimism, I believe that Aricom begins 2009 from a solid base. We have a strong balance sheet and a number of very large deposits, within a full spectrum of mining, development and delineation that are situated in close proximity to the border of one of the world's largest growth markets. In the second half of the year, we will be producing from our Kuranakh project, retaining our cost advantages into a local market from where demand for our products continues to remain strong.

On 6 February 2009 it was announced that the independent board committees of Aricom plc and Peter Hambro Mining plc ('PHM') had reached agreement on the terms of a recommended merger of the two companies by which all of the issued share capital of Aricom will be acquired by Peter Hambro Mining. The Independent Aricom Board Committee considered the merger to represent an attractive opportunity to Aricom shareholders as it will allow them to benefit from (i) an enhanced market position, scale and growth platform and operational and strategic synergies through shared infrastructure of closely located operations; (ii) cashflow from the enlarged group's portfolio of producing assets which would help fund the investment required for Aricom's longer-term development plans; and (iii) the potential for significant increase in value of both Peter Hambro Mining and Aricom. It is intended that the merger will be effected by way of a Court sanctioned scheme of arrangement under Part 26 of the Companies Act 2006. The merger is conditional upon, among other things, certain Russian regulatory conditions being fulfilled to the reasonable satisfaction of both companies, the passing of the necessary resolutions by the shareholders of both companies and the sanction of the Court.

It is anticipated that, if the conditions outlined above are fulfilled, the merger will complete in late April. Aricom intends to hold its Annual General Meeting after the expected date of completion of the merger. If the merger does not progress as anticipated the Annual General Meeting may be held before completion of the merger, in which case, shareholders will be informed of arrangements for the Annual General Meeting.

Dr Pavel Maslovskiy
Chairman

Chief Executive Officer's Review

The year in review saw Aricom make significant progress at key stages of project development and, despite the weakened commodity markets, the potential for our portfolio of assets to deliver long term shareholder value remains in place. The key to unlocking this value is suitable funding.

Value Creation in the Mining Portfolio
Kuranakh advanced from mining to first production during the year and despite significant delays we are now seeing good progress at the Olekma beneficiation plant with commissioning expected in the second half of 2009. The successful sales of pre-concentrate demonstrated our logistics division's ability to deliver to market whilst the crushing and screening plant is now capable of operating at a capacity of 1mtpa.

Aricom's full feasibility study, the results of which were published in October, proved the value and viability of the K&S project and was then independently reviewed for the benefit of potential project financiers. The mine plan shows a life of 40 years on current reserves at an average mining rate of 10mtpa. Construction work on basic infrastructure at site has commenced and good progress is being made on relevant permitting and approvals.

At Garinskoye, confirmation drilling has been completed resulting in a proven mine-life of 25 years at 10mtpa. The initial capital outlay at Garinskoye has been minimised by reducing the initial scope of operations at site to a mining, crushing and screening facility. The resultant pre-concentrate would then be transported to the K&S project where it would be blended with K&S ore to generate a 65% concentrate. The study also shows a pleasing correlation of Russian reserve estimates to the internationally accepted JORC standard.

The announcement of our combined feasibility study coincided with the initial peak in concerns on global credit markets and hence we have now reviewed further optimisations to reduce significantly external funding requirements.

Growth by Acquisition
Value accretive acquisitions remain an integral element of Aricom's growth strategy and during 2008, Aricom acquired strategic extensions to both the K&S and Garinskoye projects. Although the potential investment return from these acquisitions is long term, the size of the resource acquired lifts Garinskoye and K&S to a size that is equivalent to a Tier 1 world class project.

Capturing Value by Vertical Integration
With all Aricom projects, we have explored the potential to move up the value chain into downstream processing in order to maximise the return. The most advanced area in which we are addressing this capture of further value is the joint venture with Chinalco to process Kuranakh's ilmenite into titanium sponge. During 2008, the two parties finalised the joint venture agreement and entered into the first stage of construction.

In addition, our largest vertical integration project is our plan to upgrade our iron ore concentrate to direct reduced iron using the ITmk3 process owned by Kobe Steel, with whom we are in discussions. This high value-added product is in considerable demand in the local market and we are also in discussions with a number of potential construction partners.

Another area in which we have moved away from direct mining operations to utilise our current portfolio of assets and the availability of local expertise is the in-house mining engineering institute, Giproruda. The 163 specialists employed by Girproruda carry out work on both Aricom and third party projects and generate a profit line for the Group as well as aiding our internal analytical process.

Balance Sheet
Aricom enters 2009 with a cash balance of US$257 million and no debt. Cash management has become a priority during the year and we have tried to maintain both a diversity of low risk banking exposure and blend of dollar and rouble deposits. This has resulted in a relatively low return on investment and foreign exchange losses due to the weakening rouble.

Cash conservation is a priority for the Group and a macro review of budgets and capital expenditure is in place. All project decisions are under review pending funding progress.

Outlook
Particularly in this market, I would draw shareholders' attention to the risk section contained in this report, however I share my Chairman's cautious optimism in believing that Aricom begins 2009 well placed with strong mining assets, a strong cash balance and a growing human resource. I would like to thank everyone within the Aricom Group for all their hard work and I am confident that we can achieve our targets for 2009 and will continue to unlock shareholder value.

Jay Hambro
Chief Executive Officer

Business Review

Aricom's fleet of Volvo trucks at Kuranakh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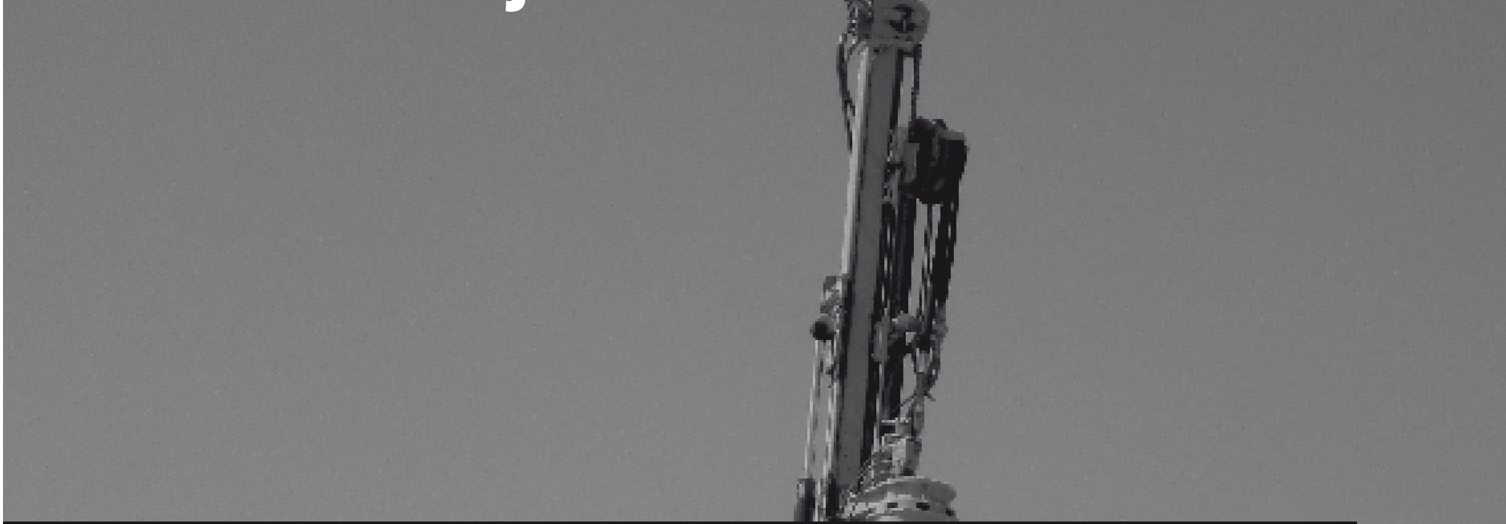
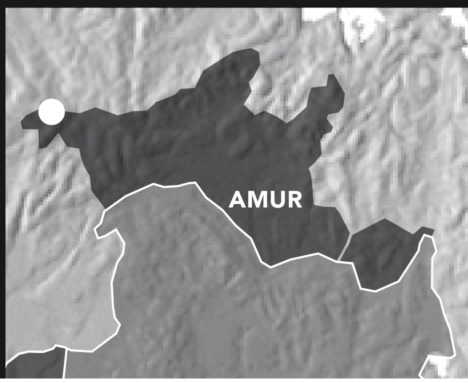
Kuranakh Project



- First sales of iron ore pre-concentrate achieved
- Crushing and screening plant operational
- Initial development of open pit completed
- Progress on construction of beneficiation plant and infrastructure



Reserves and Resources

Kuranakh & Saikta*	GKZ Ore Mt	Grade %	Fe Mt
B	5.5	32.9	1.8
C1	18.9	32.0	6.1
C2	11.8	33.0	3.9
Total	**36.2**	**32.4**	**11.8**

	JORC Ore Mt	Grade %	Fe Mt
Measured	–	–	–
Indicated	37.9	32.1	12.2
Inferred	–	–	–
Total	**37.9**	**32.1**	**12.2**

* SRK and WAI found the reserves to be generally JORC compliant. Additional exploration of the other six ore bodies is scheduled in order to increase the estimated resources available for mining.

Background picture: Atlas Copco drill at Kuranakh
Inset picture: Conveyor at the crushing and screeing plant at Kuranakh

Kuranakh Project

Titanomagnetite Deposit Nearing Commissioning

Mining truck at Kuranakh

Location
North West Amur region

Ownership
LLC Olekminsky Rudnik – 100% Aricom subsidiary

Licence area
85km²

Life of mineable reserves
15 years

Number of ore zones
Two with six more suggesting exploration

Expected per annum production
0.9mtpa titanomagnetite; 0.29mtpa ilmenite

Background
LLC Olekminsky Rudnik ('Olekminsky Rudnik'), the 100% owned subsidiary of Aricom, holds the licence for the exploration and development of the Kuranakh ilmenite and titanomagnetite deposit in the north west of the Amur Region. Kuranakh was acquired in December 2003 from Peter Hambro Mining plc.

Mining
The stripping of overburden and mining of ore continued throughout the year at the Saikta open pit. Mining was concentrated on the 740–770 elevation benches with the majority of ore coming from the 740 bench. As budgeted, a surveyed total of 789,500m³ of overburden and 100,500t of ore had been moved by the end of the year with the majority of the overburden material being used to build the haulroads in and around the site. Approximately 89,000 linear metres of blast holes had been drilled by 31 December 2008.

Mining Equipment
Three EKG5A electric rope shovels have been working in the open pit with the remaining two expected to be operational in the first half of 2009. The following mining equipment was delivered during the year:

- 20 Volvo A40E articulated trucks – all commissioned and operational;
- One Atlas Copco DML overburden drill;
- ANFO truck (10t capacity) – commissioned and permitted; and
- Six HOWO pre-concentrate haulage trucks.

Processing
Kuranakh Crushing and Screening Plant
Despite the bad weather conditions, including extremely low temperatures in the first and last quarters of 2008, the construction works at the crushing and screening plant proceeded during the spring and summer. All of the required equipment was purchased from Chinese and Ukrainian companies, delivered to site and installed. Two cone crushers and one magnetic separator were commissioned in October 2008 and as a result, the first stage of the crushing and screening plant was commissioned and subsequently produced more than 10,000t of pre-concentrate. Out of this, nearly 6,000t was sold although production from the plant was subsequently suspended temporarily in December. A further two cone crushers and three magnetic separators were commissioned in December and by the end of the year all of the plant buildings were fully enclosed and heated.

At full capacity 2.4mt of ore will be crushed annually to produce 1.8mt of pre-concentrate.

2008 Progress
First Shipments of Pre-concentrate
On 19 June 2008, Aricom announced that it had completed the first product sales from Kuranakh. The shipped product was an iron ore pre-concentrate that was mined and processed from the Kuranakh deposit. This was an initial sale from previously stockpiled material which was delivered, by truck, from Kuranakh to the Aricom loading yard at the Olekma railway station.

Regular shipments of iron ore pre-concentrate from the crushing and screening plant, amounting to 5,864t, were delivered in October and November. In early December, owing to the rapidly deteriorating market conditions no longer supporting the economic value in selling pre-concentrate, sales were suspended to await commissioning of the Olekma processing plant in mid-2009. By 31 December 2008, 13,500t of pre-concentrate had been produced and 10,015t had been shipped.

Kuranakh Project continued

Accommodation block at Kuranakh

Olekma Process Plant Site
Despite the overall delay, generally good progress was achieved on construction throughout the year notwithstanding exceptionally cold weather in the first and last quarters of 2008. Further delays were experienced due to the late delivery of the electrostatic separators but by the end of December 2008, all processing equipment had arrived at the site and was ready for installation.

Specific progress on construction during 2008 included:
- Completion of the outer shell of the main process building (300t of structural steel);
- Completion of all internal frameworks including overhead bridge cranes;
- Completion of internal thermal cladding and installation of heaters; and
- Commencement of the concrete foundation platforms for equipment.

Construction and commissioning of the entire process plant is expected to be completed during H2 2009.

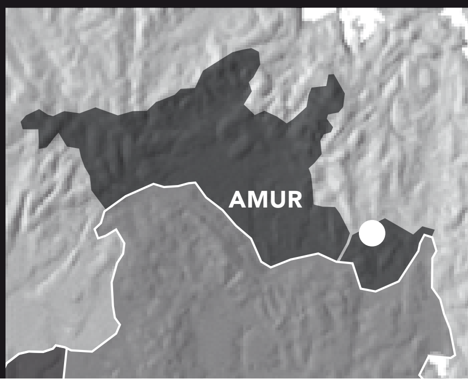
Infrastructure
Support Facilities
The majority of the administrative, accommodation and other associated support infrastructure was completed and in operation by the year end. Construction of the fourth accommodation block and transitional galleries between levels should be completed shortly whilst the heating and water treatment systems are operational and the site laboratory and site shop are almost complete.

Rail Connection
Completion of the assembly works associated with the rail tracks for the three site sidings and the spur line to the BAM mainline is expected early in 2009.

Human Resources
Recruitment for all levels of management and operational personnel is proceeding on schedule. The human resources department made visits to various training institutes in the Amur and other regions as well as conducting an extensive advertising campaign both in the Russian Far East and major university cities. In addition, Aricom has commenced a full management training programme to attract young graduates to the operations. At the end of 2008, the Kuranakh project had a total staff of 576 working at Kuranakh, Tynda and in the Blagoveschensk regional office.

K&S Project

- Completion of the K&S and Garinskoye Feasibility Study
- Signing of the MOU with MCC for the construction of the Beneficiation Plant
- Site preparation and initial construction programme commenced



Reserves and Resources

GKZ

Kimkan*	Ore Mt	Grade %	Fe Mt
A	17.8	35.9	6.4
B	69.4	35.5	24.6
C1	102.2	35.5	36.3
C2	32.3	35.2	11.4
Total	**221.7**	**35.5**	**78.7**

Sutara est. pre GKZ approval			
C1	**369.3**	**32.7**	**120.76**

JORC**

	Ore Mt	Grade %	Fe Mt
Measured	–	–	–
Indicated	165.9	33.8	56.2
Inferred	83.1	32.9	27.4
Total	**249.0**	**33.5**	**83.5**
Measured	–	–	–
Indicated	248.0	30.9	76.6
Inferred	58.2	30.9	18.0
Total	**306.2**	**30.9**	**94.6**

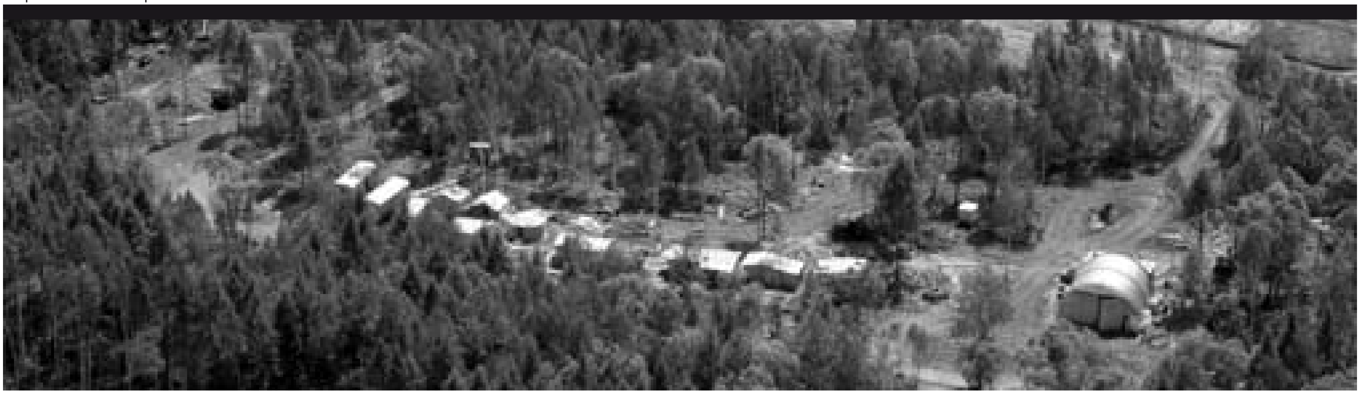
* Formally reviewed by WAI February 2007 for pre-feasibility study and now inputted into Micromine model.

** JORC estimate as independently reviewed by WAI. Further exploration work ongoing at Sutara.

Background picture: An overhead view of K&S
Inset picture: Exploration drilling at Sutara

K&S Project Magnetite Iron Ore Deposit in Development

Exploration camp at K&S



Location
Obluchensky district of the EAO

Ownership
KS GOK – 100% Aricom subsidiary

Licence area
Kimkanskoye: 22.4km²; Sutarskoye: 27km²

Life of mine
25–40 years

Number of ore zones
Kimkan: 7; Sutara: 3

Expected per annum production
3.6mtpa iron ore; 2.5mtpa direct reduced iron

Background
The K&S ('Kimkanskoye' & 'Sutarskoye') deposits were first identified in the early 1950s and 1960s and are located close to both the Trans-Siberian railway (4km) and the Chinese border (c.60km). The licences over the two deposits were granted to LLC Rubicon (now known as KS GOK) in February 2006 and have a term of 20 years, which is extendable with the consent of the licensing authority. In April 2006, Aricom acquired an option to purchase 50% of LLC Rubicon which holds the licences. In June 2006, Aricom acquired the 50% interest in K&S not subject to the option and subsequently exercised the option and completed the transaction in August 2007, consequently owning 100% of the K&S project.

2008 Progress
Exploration
Drilling
Geological exploration works were completed at Kimkanskoye ('Kimkan') and continued at Sutarskoye ('Sutara') with five exploration borehole drills being used overall. By the end of December 2008, c.21,000 linear metres of drilling and 47,000m³ of trenches were completed. All geological and geotechnical drilling is expected to be completed by mid 2009.

Hydrogeology
During 2008, six hydrogeological boreholes were drilled, lined and capped ready for pumping. In May 2008, GKZ confirmed water pumping potential of 5,000m³ per day following extensive test pumping of underground aquifers and water analysis.
The hydrological works at the Kimkan River and hydrological exploration works at Sutara are ongoing and results are expected during the first quarter of 2009.

Geotechnical
Geotechnical exploration for the accommodation camp and the process plant sites and in the area of the tailings management facility was completed in the first quarter of 2008, and tree clearance commenced in the areas approved by the Federal authorities. At the Kimkan deposit, a local construction company tested the overburden stripping material to determine whether it can be used for construction purposes with results due shortly.

Reserves and Resources
In September 2008, Aricom completed the conversion of K&S reserve and resource calculations from the Russian GKZ classification to the internationally accepted JORC classification.

JORC resources of the Kimkan deposit. Cut-off grade 25% Fe total

Category	Volume '000m³	Tonnage '000	Specific weight m³/t	Fe total %
Indicated	49,641	165,826	3.3	33.8
Inferred	25,693	83,120	3.2	32.9
Total	**75,334**	**248,946**	**3.3**	**33.5**

JORC resources of the Sutara deposit. Ore body 1. Cut-off grade 24% Fe total

Category	Volume '000m³	Tonnage '000	Specific weight m³/t	Fe total %
Indicated	72,944	248,011	3.4	30.9
Inferred	17,116	58,197	3.4	30.9
Total	**90,060**	**306,208**	**3.4**	**30.9**

New federal road next to K&S

Procurement and Construction
Aricom held discussions with a number of local and international companies regarding the construction contracts for processing and infrastructure. Negotiations focused on local contractors for the smaller, more numerous, infrastructure contracts (roads, rail connections, power and water supplies) and international contractors for the larger contract for constructing the mine and process plants.

The contract negotiations for the processing plant culminated in October 2008 with Aricom entering into a non-binding Memorandum of Understanding with China Metallurgical Group Corporation ('MCC'). MCC are one of the largest equipment manufacturers in China and a leading Chinese contractor to the metals and mining industry. The MoU provides the basis for discussions between Aricom and MCC concerning the signing of an engineering, procurement and construction agreement ('EPC' contract) based on an internationally recognised form of contract (such as the International Federation of Consulting Engineers (FIDIC)) for fixed price, EPC/turnkey projects.

Negotiations with equipment manufacturers to supply both the K&S and Garinskoye projects with crushers, screens, ball mills, magnetic separators and specialised vehicles, took place during the second half of the year.

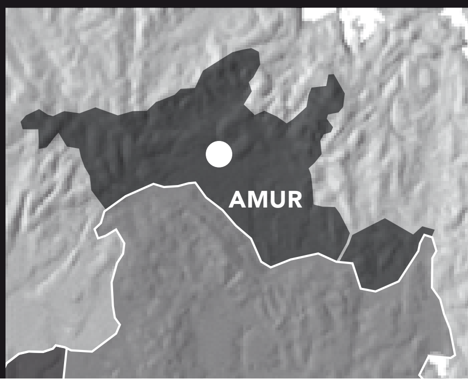
By the end of December 2008, construction work had commenced on access roads and site clearing for a temporary construction camp.

Social and Environmental
Public Consultation
Two public consultations on the project were organised in May and June 2008 in conjunction with the EAO government and the local district administration. A preliminary consultation gathered approximately 70 local citizens, potential employees, and representatives of the authorities, whilst the main public hearing attracted 155 participants. The issues discussed at both meetings included the social and environmental impacts of the project, regional infrastructure development, and employment opportunities. Participants unanimously supported the project.

Human Resources
At the end of December 2008, 118 people were employed in the regional office in Birobidjan and at the K&S project site.

Garinskoye

- Completion of initial exploration drilling
- Completion of Public Enquiry



Reserves and Resources

GKZ

Garinskoye	Ore Mt	Grade %	Fe Mt
A	22.5	42.7	9.6
B	61.3	43.2	26.5
C1	127.7	40.8	52.1
C2	177.3	40.8	72.3
Total	**388.8**	**41.3**	**160.5**

JORC Equivalent*

	Ore Mt	Grade %	Fe Mt
Measured	–	–	–
Indicated	244.0	34.2	83.5
Inferred	146.9	31.6	46.4
Total	**390.9**	**33.2**	**129.9**

* JORC estimate as independently reviewed by WAI.

Background picture: A view of Garinskoye
Inset picture: A view of Garinskoye

Garinskoye

Magnetite Iron Ore Deposit in Development

A view of Garinskoye

Location Mazanovsky District in Central Amur	
Ownership 99.58% Aricom	
Licence area 12km²	
Life of mine 40 years	
Number of ore zones One	
Expected per annum production 4.6mtpa iron ore	

Background
In October 2006, Rosnedra (the Federal Subsoil Service) initiated a tender for the licence to mine iron ore at the Garinskoye deposit. Following the acquisition of an initial 70.22% interest in Garinskoye in September 2007, pursuant to an agreement dated March 2007, in December 2007, Aricom conditionally agreed to increase its ownership in Garinskoye to 99.58%. In February 2008, a further 29.26%, owned by Olis Constructions Limited ('Olis'), was purchased by Aricom.

2008 Progress
Exploration
Drilling
Confirmation and geotechnical drilling was ongoing throughout 2008 and by the end of December, a total of 2,091 linear metres had been completed. The geotechnical study of potential pit wall stability began in March and is being performed by a St. Petersburg based company. This will continue throughout the winter drilling season and results are expected in early 2009.

Procurement and Construction
Negotiations with equipment manufacturers to supply both the K&S and Garinskoye projects with crushers, screens, ball mills, magnetic separators, and specialised vehicles, took place during the second half of the year.

The geotechnical research and work necessary for receiving approvals for the construction of the access roads and other infrastructure commenced in July. The survey and design works for the first stage of the construction of the access roads will commence in the first half of 2009.

Environmental Studies
A contract was signed with a local environmental specialist to prepare the preliminary environmental impact study for the Garinskoye project. This study, based on the results of environmental baseline conditions, was finished in October and the results will be incorporated into the final OVOS report (Russian Environmental Impact Assessment), to be issued in 2009. The results of the preliminary study concluded that despite impacts on the environment and the local populace, the overall social impact of the project will be beneficial and will result in improvements to regional infrastructure and an increase in local employment.

Public Consultations
The Garinskoye public enquiry took place on 4 December 2008 with over 250 attendees from the local communities, administration and related stakeholders. Aricom gave presentations on project development, environment and employment opportunities. Whilst a number of local stakeholders had concerns over the effect of a large industrial project on an otherwise rural environment, the majority of attendees were supportive.

Human Resources
Aricom has embarked upon a programme to select local high school students for further education and training. The students will receive an Aricom scholarship to study at universities in Russia's Far East and will be guaranteed employment at the end of their study period. By 31 December 2008, 17 people were employed on the Garinskoye project in Blagoveschensk.

K&S and Garinskoye Combined Feasibility Study

Drilling at K&S

Background
In October 2008, Aricom completed and published the results of its Combined K&S and Garinskoye Feasibility Study.

The study envisaged both K&S and Garinskoye being developed by open pit mining methods, both mining ore at the rate of 10mtpa and both delivering their ore to feed a single optimised processing plant to be located at K&S. The study also included plans to commission a direct reduced iron ('DRI') facility at the K&S project site utilising iron ore concentrate feed from the processing plant to produce iron nuggets.

The study received positive independent review by industry leading consultants, including Wardell Armstrong International and Hatch Engineering and in addition, JORC reserve estimates were independently generated for K&S and Garinskoye which showed good correlation to historical estimates.

Process
The central processing plant at K&S would process both the pre-concentrated ore from Garinskoye (7.26mtpa) and the run-of-mine ore from the Kimkan and Sutara pits (10mtpa) with annual production of 8.2mtpa of iron concentrate at 65% Fe. Approximately 3.75mtpa of that concentrate will be sent to the proposed DRI plant for further processing. The balance, some 4.55mtpa, will be sold as concentrate.

The DRI plant which will be located in the same industrial complex as the processing plant is expected to use the Kobe Steel Ltd owned 'ITmk3' technology which uses a coal based rotary hearth furnace to form iron nuggets. At full production this plant should produce 2.5mtpa of iron nuggets which will be sold in this form.

Infrastructure
The K&S project is located close to the Trans-Siberian Railway and the road and energy network. The full feasibility study proposes that Aricom will re-construct a small section of historic railway connection and loading/unloading facilities. The main area of infrastructure required is a camp for approximately 1,100 people and relevant heating, water and electricity supplies.

The Garinskoye project is located approximately equidistant between the Trans-Siberian and BAM railways. The optimised study has looked at the local area in detail in order to reduce the original cost of constructing a railway connection to Garinskoye from one of the national networks. Aricom commissioned a study from a North American contractor for the construction of a 124km cable belt conveyor connecting Garinskoye to a spur from the Trans-Siberian Railway at Shimanovsk where Aricom would build a storage area and loading facilities. The second main area of infrastructure required is a camp for approximately 500 people and relevant heating, water and electricity supplies.

Mineable Reserve Analysis
The Company used a Russian contractor to construct detailed mine plans for both the K&S and Garinskoye projects using both historical geological data as used in the GKZ reserve and resource data and the more recent confirmation drilling that Aricom has undertaken. The following table sets out this information and highlights the good correlation between the historical mineable reserves to what has been redrilled and independently reviewed recently:

	GKZ Resource Estimate	GKZ Mineable Reserve Estimate ***	JORC Mineable Reserve Estimate ****	Estimated Mine Life *****
Garinskoye	388mt at 41.3%**	223mt at 38.5%**	220mt at 37.9%*	25 years
K&S	564mt at 33.7%*	539mt at 33.7%*	377mt at 31.8%*	40 years
Total	**953mt at 36.7%**	**762mt at 35.1%**	**597mt at 34.0%**	**40 years**

* Confirmed by GKZ in 1956 for Kimkan deposit and calculated, but not confirmed, for the Sutara deposit.
** Confirmed by GKZ in 1956.
*** Mineable reserve estimated as GKZ A + B + C1 categories.
**** Mineable reserve estimate as independently reviewed by WAI.
***** Mine life as estimated by Aricom studies at forecast annual mining capacity and based on reserves before the addition of resources and halo areas.

Geological exploration camp at Sutarskoye

Capital Expenditure
The maximum capital expenditure requirements for the differing phases of the various projects are detailed below:

US$ million	To Concentrate K&S	To Concentrate Garinskoye	On to DRI K&S	Total
Design & Other	29	37	88	154
Infrastructure	157	549	7	713
Mining	74	47	n/a	121
Beneficiation	276	69	971	1,316
Total	**536**	**702**	**1,066**	**2,304**

The majority of these estimates are based on actual quotations received. For the purpose of this analysis all capital expenditure totals are shown as pre-production and so do not include ongoing sustaining capital expenditure which is expected to be on average US$10 million per annum.

Construction Contracts
The working assumption is that Aricom manages a number of subcontractors for the construction and development of the necessary infrastructure and initial mining operations.

In November 2008, the Company entered into a non-binding Memorandum of Understanding ('MoU') with China Metallurgical Group Corporation ('MCC'), one of the largest equipment manufacturers in China and a leading Chinese contractor to the metals and mining industry. The MoU relates to the construction of the central processing plant at K&S and provides the basis for discussions between Aricom and MCC concerning the signing of an engineering, procurement and construction agreement ('EPC' contract) based on an internationally recognised form of contract (such as the International Federation of Consulting Engineers ('FIDIC')) for fixed price, EPC/turnkey projects.

The DRI plant would be the subject of a separate contract and Aricom has received a proposal from an international contractor.

Revised K&S development plan
Due to the current global economic crisis and the resulting significant downturn in the availability of debt financing, Aricom has sought to optimise the construction and development phasing of the K&S and Garinskoye projects to bring smaller, less capital intensive, mining and processing operations into production at the earliest possible time whilst maintaining attractive returns.

An updated analysis of the K&S operation has been developed based upon mining ore at an initial capacity of 3.5mtpa (increasing in year seven to 10mtpa) to be delivered to a processing plant producing 1.1mtpa of saleable iron ore concentrate at a grade of 65.8% Fe. The analysis also assumes that two years after the start of the processing plant, a DRI plant, employing the Kobe Steel ITmk3 technology, would process 0.75mtpa of iron ore concentrate to produce 0.5mtpa of DRI nuggets.

The K&S analysis shows that significant project optimisation can be achieved by reducing the initial capacity of the processing and DRI plants, with the modular nature of both allowing expansion at a later date. This should achieve an immediate capital expenditure reduction of approximately 70% in the cost of the processing plant and nearly 80% in the DRI plant versus the original plan. Further reductions can be achieved in capital expenditure for site infrastructure with the reduced size of the operation allowing a very significant saving of approximately US$70 million to be made to the original plan of building additional railway infrastructure near to the pit. The total infrastructure saving, which also includes reductions in the size of the accommodation camp and the tailings facilities, represents an approximately 50% reduction versus the original plan.

Any option to reduce the size of the K&S operation would also reduce capital expenditure required at the mining site itself. The sequential mining of the project's three pits (Kimkanskoye Central, Kimkanskoye West and Sutarskoye) makes it possible to reduce initial capital investments in the mining equipment such as drill rigs, excavators, bulldozers and mine trucks. The total mining reduction is approximately 60% versus the original plan. Overall capital expenditure for the reduced K&S project to progress to the start-up stage is estimated to be approximately US$420 million, US$116 million less than envisaged under the original plan.

This reduced capital expenditure gives the project significant option value. Financial and iron ore markets will continue to be monitored by the Enlarged Group for evidence that the projected economic requirements of the study are in place. In the interim, the work programme at K&S is under constant review to minimise cash outflow whilst keeping some positive momentum on project development.

Bolshoi Seym Project Titanomagnetite Exploration Deposit

Location Tyndinski district, 40km to south of Kuranakh	
Ownership 49% Aricom, 51% Managing Company Intergeo LLC ('Intergeo')	
Licence area 26km²	
Life of mine n/a	
Number of ore zones n/a	
Expected per annum production n/a	

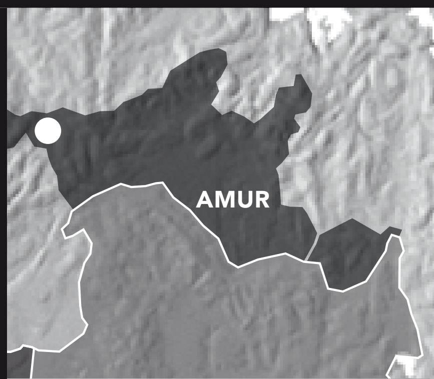
Background
In February 2006, Aricom entered into a heads of agreement with Timia, a company related to Interros, which is the major shareholder in OJSC Norilsk Nickel. The heads of agreement related to the establishment of a new holding company for LLC Uralmining ('Uralmining'), the company that owns the licence to develop the Bolshoi Seym deposit. The holding company is 49% owned by Aricom and 51% owned by Timia with Aricom appointing the General Director of Uralmining.

2008 Progress
Exploration
Drilling
The drilling operations have been conducted on a pattern 200m long by 100m wide. 49 inclined boreholes were drilled, during the year, on nine cross-sections. Most of the drilling operations were concentrated in the eastern ore zone and one cross-section was drilled that intersected the ore bodies of the western ore zone. Geophysical logging was conducted in all of the boreholes. The drilling results to date indicate that the ore bodies have a thickness of between 10 to 30m. The ore bodies have been explored to a depth of 400m.

The fieldworks completed by 31 December 2008 included:

- Geological-environmental works on analysis of the baseline conditions. Environmental samples were sent to the Center of Hygiene and Epidemiology;
- 37,375 linear metres of drilling works were completed, including four hydrogeological boreholes (852m);
- 17,526 core samples were taken and the analytical results of 10,732 samples were received by Urangeo (the subcontractor responsible for sample analysis); 7,800m³ of trenching works were completed;
- 3,952m³ of trench samples were completed and analysis results obtained for 498 samples; and
- Two technological samples were sent to analytical laboratories – 23t were sent to Apatity and 315t were sent to Udokan.

The project is under review.

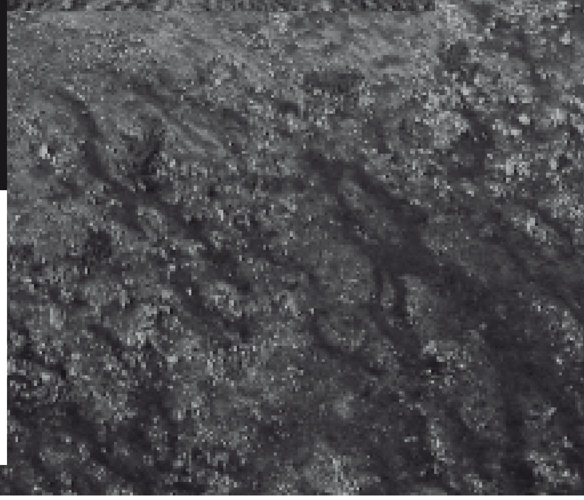


Reserves and Resources

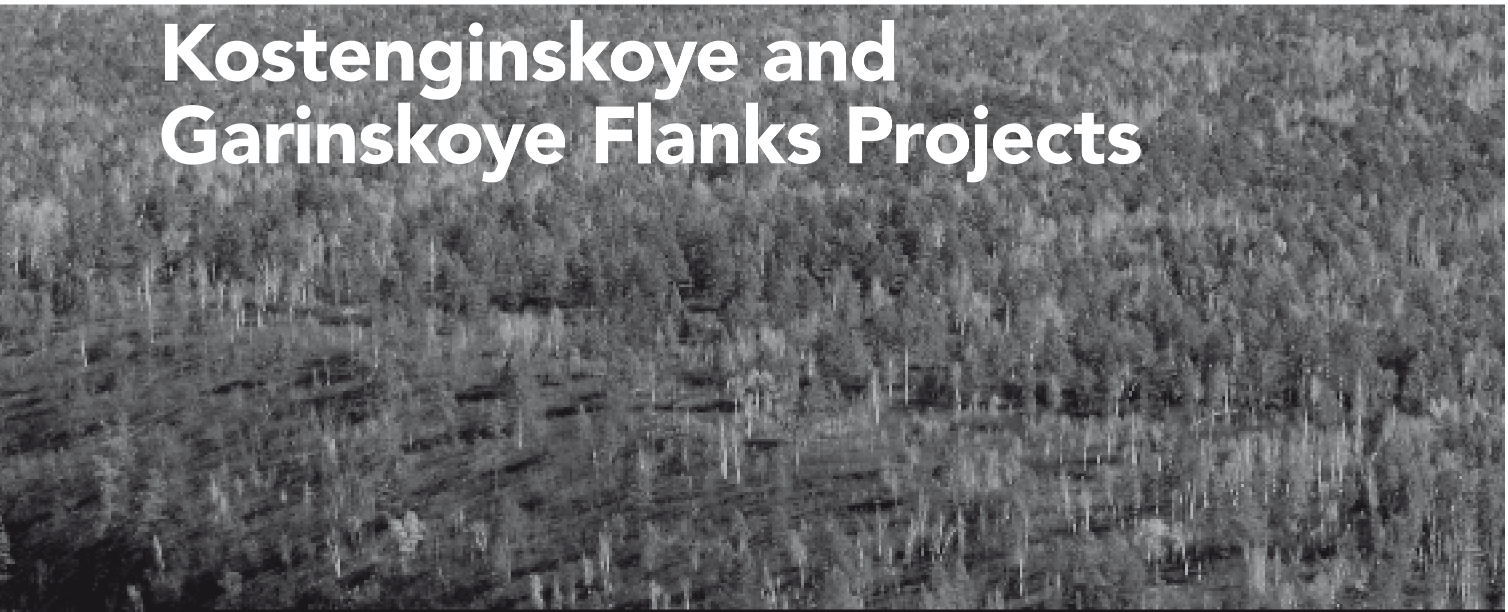
GKZ Bolshoi Seym*	Ore Mt	Grade %	Fe Mt
C2	270.0	18.0	48.6
P1	430.0	17.8	76.5
Total	**700.0**	**17.9**	**125.1**

JORC Equivalent	Ore Mt	Grade %	Fe Mt
Indicated	–	–	–
Inferred	270.0	18.0	48.6
Total	**270.0**	**18.0**	**48.6**

* Kulakov 1988 estimate.
Note: These values are geological cut-offs and tend to define the margins of mineralisation. WAI is satisfied with this methodology adopted by Aricom.



Background picture: A view of Bolshoi Seym deposit



Kostenginskoye and Garinskoye Flanks Projects

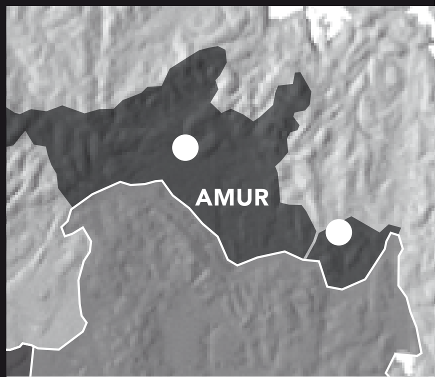
Background
In March 2008, Aricom acquired options to purchase two licences close to the existing K&S and Garinskoye projects. The options were acquired from two Cypriot companies, which indirectly held the licences, with two cash payments of US$22.5 million paid at the time of the announcement. Subsequently, in September, the options were exercised and a further payment was made consisting of the allotment and issue of 10,937,500 (21,875,000 in total) ordinary shares of £0.001 each in the capital of the Company ('Consideration Shares') credited as fully paid to the sellers.

Kostenginskoye
The Kostenginskoye licence covers an area located approximately 25km to the south of Aricom's K&S project. This will provide significant natural expansion potential to the existing project at K&S.

To date, preliminary site surveying and aerial magnetometer surveys have taken place at Kostenginskoye. The programme for the exploration of the deposit was developed by Aricom and approved by the local (Khabarovsky region) authorities and will commence in Q1 2009. It will include:

- Bore hole drilling
  - a) exploration – 39,585m;
  - b) technological – 4,780m;
  - c) hydro geological – 2,800m;
  - d) sterilisation – 500m;
- Trenching – 159,600m³;
- Geomagnetic surveying – 12.5km²; and
- Sampling – 17,641 samples.

Garinskoye Flanks
The Garinskoye Flanks licence covers an area of 3,530km² immediately surrounding Aricom's current Garinskoye licence. Aricom is preparing and reviewing the exploration programme.



Reserves and Resources

GKZ

Kostenginskoye	Ore Mt	Grade %	Fe Mt
A/B/C1/C2	163.9	31.6	51.8
P1/P2	100.0	31.6	31.6
Total	**263.9**	**31.6**	**83.4**

JORC Equivalent

Kostenginskoye	Ore Mt	Grade %	Fe Mt
Indicated	–	–	–
Inferred	163.9	31.6	51.8
Total	**163.9**	**31.6**	**51.8**

GKZ

Garinskoye Flanks	Ore Mt	Grade %	Fe Mt
A/B/C1/C2	6.3	41.3	2.6
P1/P2	975.0	41.3	402.6
Total	**981.3**	**41.3**	**405.2**

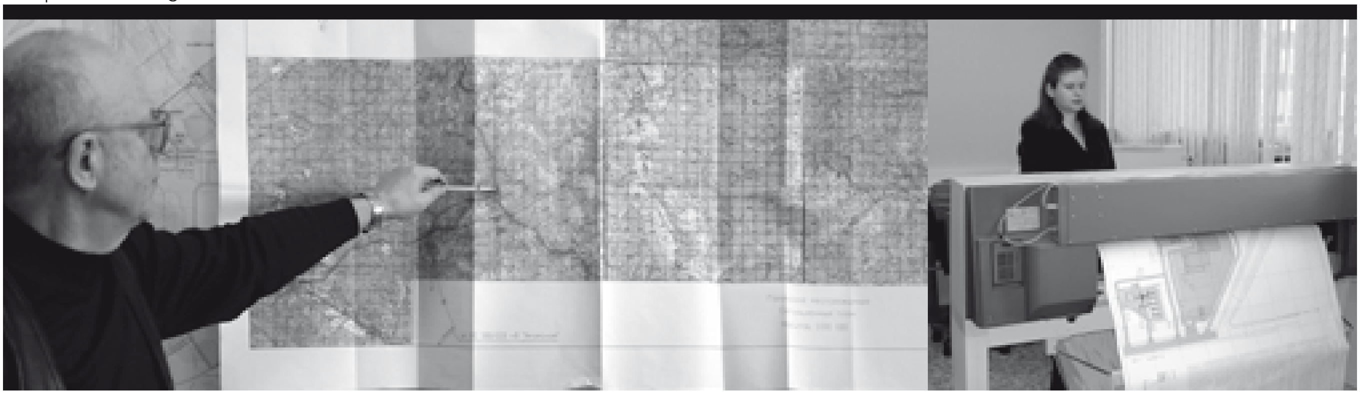
JORC Equivalent

Garinskoye Flanks	Ore Mt	Grade %	Fe Mt
Indicated	–	–	–
Inferred	6.3	41.3	2.6
Total	**6.3**	**41.3**	**2.6**

Background picture: A view of Garinkskoye

Giproruda

Computerised design



- Completion of the Garinskoye pre-feasibility study
- Completion of the new Hydrometallurgical Laboratory

Background
Based in St. Petersburg and employing 163 people (at 31 December 2008), Giproruda is one of Russia's most respected mining design institutes specialising in the analysis and design of both open pit and underground mining projects. Giproruda has considerable experience in extreme mining, geological and climatic conditions. Aricom holds a 70.3% interest in Giproruda.

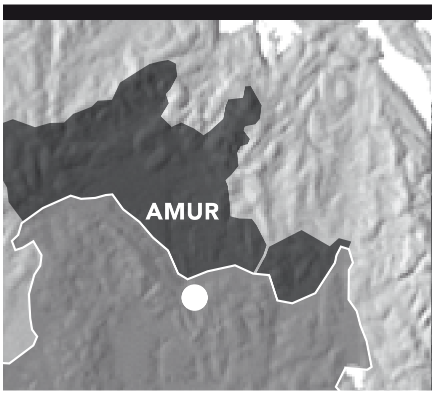
Iron ore is a key area of the institute's expertise. This will be of specific benefit in the analysis and design of a number of Aricom's future and existing development projects. Giproruda continues its work programme for other customers and estimates that it currently has a 60% market share in the project design services sector in the Russian mining sphere.

2008 Progress
During 2008, Giproruda conducted studies on:
- The Garinskoye feasibility study (as described previously);
- A Far East Russian oil and gas project for a third party; and
- A gold project for a third party.

All the main key performance indicators for 2008 exceeded the forecast results by between 15% and 30% with three of the institute's design projects being approved by the Federal authorities. In 2008, Giproruda also introduced new technology for design and cost accounting and an IT modernisation programme including the purchase of the latest mine planning software.

Hydrometallurgical Laboratory
In December 2008, Giproruda opened their new hydrometallurgical laboratory in St. Petersburg. This state of the art laboratory is equipped with the latest hydrometallurgical test equipment from Switzerland. The focal point of this new facility is the installation of three autoclaves for heat and pressure testing of ores. There are two specialised ecological systems in the laboratory, which purify the autoclave emissions and thus allow the laboratory to be sited close to the centre of St. Petersburg. The laboratory will be available for third party test work from the first quarter of 2009.

Titanium Sponge Plant Downstream Chinese Joint Venture



Titanium sponge opening ceremony in Jiamus City

- Creation of the Joint Venture with Chinalco
- Completion of preliminary design of processing plant and equipment
- Start of works at project site in Jiamusi
- Tenders launched for plant and machinery

Location
Jiamusi City, China

Ownership
65% Aricom, 35% Aluminium Corporation of China ('Chinalco')

Background

In order to capture additional profit margins available in the processing of ilmenite to be produced by Kuranakh, in June 2006 Aricom signed a Memorandum of Understanding with Chinalco, the largest nonferrous metal company in China and the owner of China's largest titanium metal processing plant, for the design and development of a titanium sponge production plant in China.

Aricom will provide the joint venture with capital, ilmenite from its Kuranakh project and expertise in titanium resources and technology. Chinalco will provide capital, technologies, proficiency in engineering design, construction and metal production and ensure off-take of the titanium sponge to be produced by the plant.

2008 Progress

Project Approval by the Chinese Authorities and Creation of the Joint Venture

During the first half of 2008, Aricom and Chinalco completed all necessary surveying at site and filed an application with the Chinese authorities for the establishment of a joint venture in Jiamusi city (Heilongjiang province, China). The relevant approvals from the Ministry of Environmental Protection, the Ministry for Land and Resources, China Ministry of Commerce and, crucially, the China National Development and Reform Committee were subsequently obtained in the summer and in September 2008, the joint venture, now called Heilongjiang Jiatai Titanium Co., was registered and received its business licence. On 10 September 2008, the official ceremony of laying the foundation stone was conducted and the first board meeting was held.

The Joint Venture commenced negotiations with the Chinese banks on the issue of project financing during the fourth quarter 2008.

Design

The basic design of the processing plant and necessary equipment was completed by the State Titanium and Design Institute of Ukraine (STI) in June 2008 whilst the preliminary design of the whole plant is expected to be completed by Shenyang Aluminium and Magnesium Institute (SAMI) in the first half of 2009.

The full detailed design of the plant will be completed jointly by STI and SAMI in September 2009.

Site Preparation and Construction

Construction exploration works are being carried out by a company from Xian, which commenced a drilling programme and seismic surveys at the construction site in November 2008 in preparation for the start of the main construction programme which is currently expected to be in the spring of 2009. Site levelling has already begun.

Several tenders have already been sought for the procurement of the plant and machinery and the joint venture still expects full commissioning of the plant by the end of 2010.

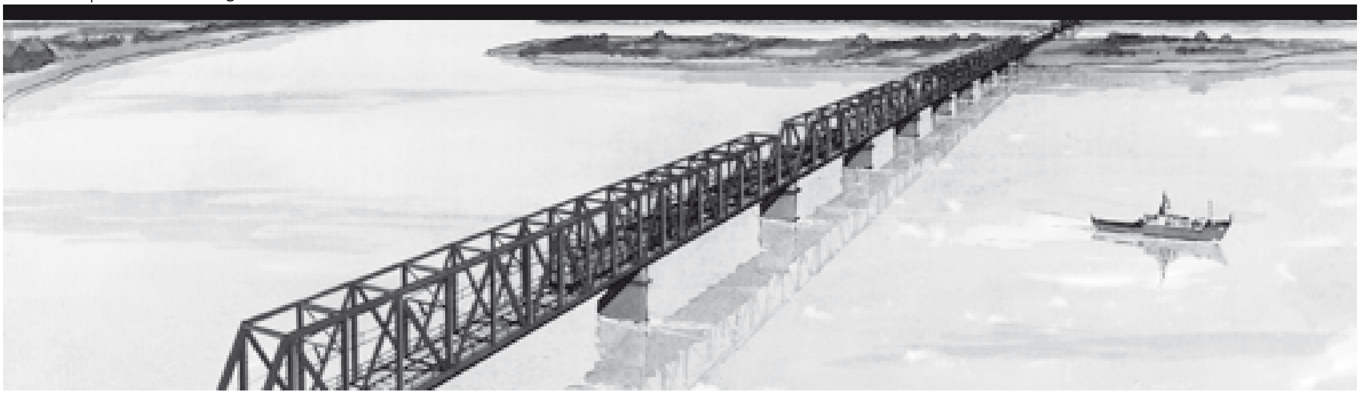
This project is under review.

Infrastructure

Background picture: An overhead view of the Sovetskaya Gavan Bay
Inset picture: Current port at Sovetskaya Gavan, proposed bridge site

Infrastructure Bridge ‘Nizhneleninskoye – Tongjiang’

Artist’s impression of bridge



- Consolidated Intergovernmental Agreement approved
- Bridge location specified

Background
Aricom is participating in the project for a bridge over the Amur River. The site is close to the Russian town of Nizhneleninskoye and the Chinese town of Tongjiang. The river at this location has an approximate width of 1km and a maximum depth of between approximately 5 to 6m. The Russian railway network has a connection to the town of Nizhneleninskoye from the Trans-Siberian Railway station at the capital of the EAO, Birobidjan. This connects the network to Nizhneleninskoye where there is an established crossing point of the river/border. This crossing is currently served by a natural ice bridge for approximately three months of the year and a ferry for the remainder of the year.

For Aricom, the presence of the new bridge suggests a saving in transport costs of approximately US$4.0 per tonne of iron ore. This bridge would also be available to other local industries and would be seen as a key advance for the local economy.

2008 Progress
Intergovernmental Approval
In 2008, the major focus was Aricom’s involvement in progressing the Intergovernmental Agreement between Russia and China. By 1 October 2008, all of the necessary approvals had been received from the relevant authorities and the documents were submitted by the Ministry of Transport to the Government of the Russian Federation. On 28 October 2008 at the meeting of the Heads of Governments of the Russian Federation and China, the Agreement was signed.

Location
In the first half of 2008, the location of the bridge and its overall design were finalised. A wide range of geodetic, geological and hydrological tests have being carried out at the project site. Working meetings were conducted between Russian and Chinese design companies both in Birobidjan and in Tongjiang during which the order of design works, the bridge parameters and the future cooperation plan were agreed.

A local design company has started the topographic surveying of the bridge site and further construction and infrastructural design. The St. Petersburg Bridge Institute is working on the technical requirements for bridge construction.

Further Development
As no State financing has been designated for this project, and there has been no precedent in Russia of having a privately-funded cross-border bridge, consultations are currently being held by the Russian State Institute of Comparative Law in order to agree upon a legal framework. When the legal framework has been defined, an investment proposal will be formed and construction can commence. On the basis of current preliminary plans, and assuming availability of finance, construction of the bridge could be completed by 2013.

The capacity of the existing railroad between Birobidjan and Nizhneleninskoye will not be enough to satisfy the cargo throughput of the bridge. Works on reaching an agreement with JSC ‘Russian Railways’ on upgrading the railroad from Birobidjan to Leninsk are ongoing.

Infrastructure Sea Terminal in the Sovetskaya Gavan Gulf

Aerial view of Sovetskaya Gavan gulf

- Sovetskaya Gavan won a tender to manage a Special Seaport Economic Zone
- Active interest from potential partners

Background
In order to reduce transport costs and to improve the number of logistical options for the Group's mining projects, Aricom is studying the viability of the design and construction of an iron ore transhipment terminal in Russia's Far East. The terminal would provide facilities for the unloading of incoming railway carriages, temporary storage of ore, and loading ore onto sea transport for further shipment to the global seaborne market.

The new terminal is expected to be constructed in the area of the existing Sovetskaya Gavan Sea Port situated in the Sovetsko-Gavanski Municipal District of Khabarovsk Krai. Located at the terminus of the BAM, Sovetskaya Gavan was proposed as the location of the new port in view of its proximity to Aricom's mining projects, convenient access to the BAM, and favourable hydrological and meteorological conditions.

The project is supported by the Russian Federal Government and the Khabarovsk Krai local government, both of which have included it in their long term development plans for the region. In addition, it is also taken into account by the Russian Railways in their development plans for the BAM. Given the small scale of existing industrial enterprises in the Sovetsko-Gavanski Municipal District, the terminal may become a landmark enterprise in the area.

Aricom has established a wholly-owned subsidiary limited company, Sovetskaya Gavan Sea Trade Port ('SGMTP'), in Khabarovsk Krai. The company leased a plot of land of 100 hectares on Maria Cape in Sovetskaya Gavan Bay where the terminal may be sited.

A preliminary feasibility study for the bulk terminal and the adjacent railway infrastructure was completed by the Russian design institute, NPO Gidroteks, in 2007.

2008 Progress
Special Economic Zone Status
Following a successful tender, the land is expected to be granted Special Economic Zone ('SEZ') status. The status is awaiting confirmation from a Governmental decree, after which SGMTP will be able to complete the formalities of applying for a status of a resident company in the zone. Such companies will enjoy a number of governmental benefits including state financing of the modernisation of the railway, construction of a marshalling yard near the port and improvements in the power grid capacity. Other benefits include lower taxes and import/export duties (depending on the commodity).

In October 2008, the Federal Agency for SEZs visited the area to meet with local authorities and study the scope and volume of infrastructure works to be carried out at government expense.

In December 2008, at a meeting of the Maritime Panel of the Russian Federal Government, First Deputy Prime Minister Sergey Ivanov stressed that the development of SEZs for ports and their adjacent infrastructure, as well as the promotion of public-private partnership in the development of the zones, was and will be among the top priorities of the Russian Government Maritime Panel and Federal Agency for SEZs.

Future Development
In preparation for the construction, SGMTP is applying for a licence that would allow it to act as the construction supervisor.

In 2009, Aricom will continue dialogue with potential strategic partners and also study the possibility of teaming up with other bulk commodity producers to jointly construct and operate the bulk terminal.

Container Terminal
In 2008, Aricom began plans for the potential construction of a container terminal in addition to the bulk terminal. Situated inside the SEZ, the container terminal could be a separate commercial project which would use the same railway branch and marshalling yard.

The BAM has the potential to be a faster rail link to Europe than the Trans-Siberian Railway from the other ports in Russia's Far East, such as Nakhodka and Vladivostok. In addition, the Sovetskaya Gavan gulf has better depths and manoeuvring capabilities, allowing reception of vessels with deadweight of more than 200,000t.

Aricom is currently talking to a number of potential strategic partners regarding the financing of construction and the management of the port.

2008 Report on Health, Safety and the Environment

2008 Report on Health, Safety and the Environment

Introduction
Aricom recognises that sustainable development is based upon two key issues. Firstly, that everyone – companies, employees, families, communities, administrations and political organisations – is connected, and secondly, that these interconnections exist within the natural environment. What happens in one has an impact – both positive and negative – on the other. Aricom acknowledges this and acts accordingly. Consequently, we are integrating the standards of sustainable development into everything we do including the design and evaluation of projects, mine planning and decommissioning and methods of raising financial capital to fund our projects.

Health Safety and Environmental Management
Aricom is a developing company, which realises that its Health, Safety and Environment (HSE) responsibilities increase with the corresponding increase in the scale of its activities. We comply with both Russian legislation (guided by the Environmental Protection Agency of the Russian Federation, 'Rosprirodnadzor') and with international good practice (the International Finance Corporation Performance Standards on social and environmental sustainability and Environmental, Health and Safety guidelines).

Aricom considers Health, Safety, and Environment as one of its major priorities and has formed a HSE committee at the level of the Board of Directors. The committee comprises four Directors, including two Non-Executive Directors (one of whom is the Chairman of the committee), the Chairman of Aricom and the Technical Director. The body monitors performance and ensures that we act consistently across all of our projects in relation to HSE.

During 2008, we have employed a number of HSE specialists, including an Environmental Manager based in Moscow, who leads the team of ecological engineers and environmental specialists at the Kuranakh, K&S and Garinskoye projects. This department coordinates Aricom's day-to-day HSE activities.

Aricom has appointed independent consultants, Wardell Armstrong International, who visit our projects located in the Russian Far East twice a year. They report directly to the Board of Directors.

Requirements
Aricom works in strict compliance with the legislation of the Russian Federation and fully supports compliance with Good International Industry Practice (GIIP) and with IFC Performance Standards and World Bank guidelines. Our HSE personnel ensure that all of our projects have the necessary documentation, licences, and permit approvals in accordance with the laws, regulations and other requirements. Where local legislation does not require an adequate level of HSE performance, Aricom conducts its activities in a manner that is consistent with the relevant international standards and practices, taking into account cultural and social features. Additionally Aricom and the IFC have developed an Environmental and Social Action Plan to monitor our performance in meeting international standards.

Health and Safety Procedures
Aricom drafted HSE procedures in 2007 and continued their refinement and implementation in 2008. These procedures were first introduced at the Kuranakh project and are being introduced at K&S and Garinskoye. Project management is responsible for adapting these procedures to site specific requirements which ensures effective and consistent implementation throughout all our projects.

Health Management
Our employees are our major asset and their health is paramount. Our personnel, contractors and visitors have access to adequate medical and first aid services as appropriate to the location and nature of the operations. Aricom acknowledges the presence of inherent occupational health risks associated with the nature of our operations, including noise, dust, hazardous materials, and vibration; alcoholism and drug abuse; and insect borne diseases such as encephalitis. Site-based health management schemes, including regular check-ups, access to preventive medicines and health advice, are being established to protect employees and contractors from health hazards associated with their employment.

Each Aricom project site is establishing a department responsible for industrial and labour safety which includes, on site medical, fire and emergency specialists. Local communities' health issues relevant to the Company operations are also identified and managed by our Human Resources departments.

Site Based Health Management
Where appropriate, Aricom employees and contractors undergo regular assessments to ensure their fitness for work. For the purpose of minimising health risks at site, operators of machinery receive a short medical check-up at the beginning and the end of each shift. The annual occupational health assessment and ongoing monitoring and medical surveillance programmes are conducted by competent specialists for all employees. In 2008, we introduced a drug and alcohol management programme designed to increase employee awareness of the dangers of these substances.

Occupational Safety
Aricom strives to prevent any kind of injury at our sites and maintains the highest level of safety. In line with its commitment to occupational safety in the Company, the Aricom Board makes the site management accountable for compliance with safety policies.

Leadership and Awareness
Employees receive regular instruction to increase their awareness of potential safety risks with site safety managers ensuring that staff have a clear understanding of these risks and the appropriate response measures to be taken. Following recruitment, but prior to taking up employment, Aricom educates future employees in HSE awareness. This education and training is documented and refresher courses take place annually. Personal Safety Protective Equipment (PSPE) is required at all sites with management of each site responsible for the type of PSPE needed and its deployment.

Safety Performance
At Kuranakh and K&S, we have introduced systems to coordinate, measure and track our safety performance. The project managers report monthly to the Technical Director and provide all of the relevant information on accidents, incidents and Lost Time Injury Frequency Rates.

Other safety control measures include site visits and audits from external consultants, management observations and inspections, as well as safety communications meetings and toolbox talks.

Accidents
Between January 2007 and February 2008, Aricom maintained an accident free record. We regret to announce that in February 2008, an accident took place at Kuranakh involving two Aricom personnel who were injured whilst felling trees. In October 2008, during the loading of iron ore concentrate onto a rail wagon, one of our employees was injured by falling rocks. Later in the same month, an environmental technician was hurt in an accident involving the personnel bus. All employees made a full recovery.

Lost Time Injury Frequency
In 2008, Aricom employees completed 89,591 working man-days and 210 working man-days were lost due to work related accidents.

Environmental Protection
All of our projects are being developed in the Russian Far East, where the flora and fauna are relatively untouched. We are very aware of our environmental responsibilities and are implementing high standards to protect the surrounding landscape from any impact from our mines. For example, we do not utilise hazardous chemicals in any of our operations.

Environmental Risks
The primary sources of potential impact on the environment will come from:
- mining operations;
- processing operations;
- tailings management facilities; and
- solid waste landfills and waste dumps.

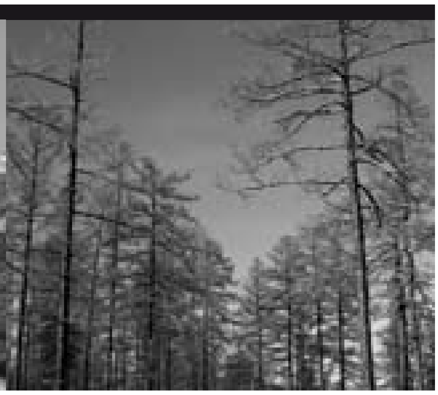
The baseline conditions studies and impact assessments carried out at the sites showed that Aricom's activities present no risks with irreversible ecological consequences.

The specific risks that require attention include:
- decrease of the drainage basin areas of local rivers as a result of the construction of tailings dams;
- contamination from nitrogen dioxide (NO_2), carbon monoxide (CO), and non-organic dust;
- contamination of soil and plant cover with non-organic dust;
- environmental pollution with iron and other heavy metals which will cause potential changes in the acidity of components of the environment;
- hydrodynamic impact on the underground water reservoirs, which are a source of local water supplies; and
- the physical and mechanical impacts on the soil and plant resources of the region caused by the destruction of the fertile layer of soil and vegetation in the construction areas.

Environmental Management
The evaluation of risks to the environment as identified in the baseline assessments has resulted in the formulation of action plans. These prescribe the basic obligations of the Company with respect to:
- management of the quality of atmosphere;
- effective use of water resources;
- actions for the protection of health and safety of personnel;
- management of extreme (emergency) situations;
- the organisation of an environmental monitoring system during the period of construction and development of the projects; and
- plans for community involvement.

The management plans for the protection of the environment, health and safety detail the measures for the reduction and control of the critical risks. The monitoring and control of these critical risks will be conducted throughout the life of the project from initial construction to project closure.

2008 Report on Health, Safety and the Environment continued



To reduce the impacts on the atmosphere air and water resources we are:

- employing dust-suppression measures at the open pits, waste dumps and all major roads;
- process plants and the heating plants are being fitted with dust/gas treatment equipment to prevent harmful exhaust gas emissions;
- recycling more than 80% of the Kurankah's process plant water needs; and
- using the liquid phase of tailings dumps (after settlement) and pit run off waters for dust-suppression.

Social Development

Introduction

Aricom is working closely with the local communities and indigenous groups in order to ensure that the regional inhabitants share in our success.

Recruitment and Training Programme

As we grow and develop, we are constantly providing new job opportunities for the local people. 985 people were employed by Aricom at the end 2008.

2008 saw the continuation of our extensive recruitment campaign for all levels of management and operators. The human resources department made visits to various training institutes in the Amur and other regions as well as conducting an extensive advertising campaign both in the Russian Far East and major university cities.

Aricom has also commenced a full graduate training programme. The programme is targeted at the selection and training of young, talented graduates as potential senior managers. The training programme lasts for two to three years, during which time the management trainees are given a full understanding of all of Aricom's activities as well as a period of 'on-the-job' training. In addition, Aricom initiated an evaluation programme to select high school students who will receive an Aricom scholarship to study at the Russian Far East universities. The students will specialise in geology, mining engineering, geo-environmental studies and economics. Aricom will guarantee the students employment on completion of their study period. At the end of 2008, eleven students had been awarded Aricom scholarships and had commenced their university studies.

Local Communities

Aricom works in close collaboration with the local communities and other stakeholders. Our goals are to maintain transparent and open communication and consultation with the stakeholders. We identify and address the needs, concerns and expectations of our stakeholders and encourage the local communities to participate and contribute to our mutual benefit. Aricom believes that it is important that we conduct our activities and operations in a way in order to respect traditional rights, values and cultural heritage.

Our sites are often located in the poor and remote areas of the Russian Far East. More than half of the local people in our regions are unemployed and many live under difficult conditions. Assistance to the local people in remote communities through education, training and job opportunities is good for the future of both the communities and Aricom.

The Company maintains proactive and open consultation and communication with the governments, authorities and local communities. We have an active Public Disclosure Strategy whereby all the concerns, complaints and relevant external communications related to the HSE aspects of the Company are recorded and registered. Such concerns are acknowledged and investigated and afterwards reported back to the relevant stakeholders. Mechanisms are in place to resolve a conflict if it arises, through consultation and participation directly with the stakeholders or their representatives.

At Kuranakh, K&S and Garinskoye Aricom has conducted public consultations. Aricom briefs the people in the locations near the construction and operation and makes them aware of the activities implemented, and welcomes any initiatives on future developments.

HSE Statistics

	2006	2007	2008
Employees			
Direct Employment	228	467	970
Contractors	250	250	275
Number of jobs created or preserved	–	240	970
Number of women in mining	12	31	161
Percentage of employees from Oblast	88%	81%	82%
Percentage of employees from local community	0	5%	8%
Percentage of nationals in top management	77%	79%	79%
Number of employees receiving training	18	96	198
Initiatives to hire and train local workers	Yes	Yes	Yes
Community			
Access to infrastructure			
Number of water/electricity/gas connections	–	–	5
Number of power substations built	–	2	–
Kilometres of roads built	23	46	21
Purchases from local suppliers	–	–	–
Local supplier/SME development programme	Yes	Yes	Yes

	2006	2007	2008
Environmental and Social Impacts			
Environment			
Displacement of other activities	No	No	No
Incidents/problems	No	No	No
Community consulted about plan	Yes	Yes	Yes
Social			
Direct adverse health impacts from operations	No	No	No
Indirect (e.g. HIV/AIDS) health impacts	No	No	No
Nuisance (e.g. noise. dust etc.) impacts on community	No	No	No
Increased tensions/alcoholism	No	No	No
Acceptance by locals	Yes	Yes	Yes
Community Engagement			
Frequency of consultations	Quarterly	Quarterly	Quarterly
Community say in social spending	No	No	No
Community development plan	No	No	In progress
Independent community fund in place	No	No	No
Planning for Project Closure			
Project closure plans	Yes	Yes	Yes
Plans for community beyond closure	No	No	No
Plans public and consulted about	Yes	Yes	Yes

Board of Directors

1. Pavel Maslovskiy
Chairman
Pavel is Deputy Chairman and Chief Operating Officer of Peter Hambro Mining plc and is Chairman of OJSC Pokrovskiy Rudnik. Pavel was formerly assistant professor at Moscow State Aircraft Technology Institute.

2. Jay Hambro
Chief Executive Officer
Jay Hambro joined Aricom in July 2006. Previously Jay was Director of Business Development at Peter Hambro Mining plc during Peter Hambro Mining plc's rapid evolution from junior exploration company to the second largest, and one of the lowest cost, gold producers in Russia. Prior to joining Peter Hambro Mining, Jay was a manager of the Metals & Mining corporate finance team within HSBC Investment Bank. Jay began his career in the resource finance team at NM Rothschild & Sons Ltd following a BSc in Business Management. Jay is a non-executive director of Peter Hambro Mining plc.

3. Brian Egan
Chief Financial Officer
Brian Egan was appointed Finance Director in July 2007. He was the Group Chief Financial Officer of Gloria-Jeans Corporation, a leading Russian apparel manufacturer and retailer and has over 15 years' experience in senior financial roles. He was previously VP of Finance of the EMEA Region/Ingredients Division with Associated British Foods Plc, Financial Director of Georgia-Pacific Ireland Limited and Chief Financial Officer of Coca-Cola HBC Russia. He is a member of the Institute of Chartered Accountants in Ireland.

4. Yuri Makarov
Operations Director
Yuri Makarov was appointed to the Aricom board in 2004. Until this appointment, Yuri was the adviser to the Chairman of OJSC Pokrovsky Rudnik, a subsidiary of Peter Hambro Mining plc. Prior to this, he was the Commercial Director of NT Computers in Moscow, Russia. He has been actively involved in Aricom's development since its incorporation. Yuri is a qualified systems engineer from the Moscow State Aircraft Technology Institute.

5. Martin Smith
Technical Director
Martin Smith joined Aricom in June 2006 as Technical Director with responsibility for overseeing all the technical aspects of Aricom's mine developments. He has more than 25 years' operational and corporate management experience across the global mining industry. Having begun his career as a mining engineer at Anglo American Corporation, South Africa, Martin has led important projects mining coal, base and precious metals for some of the leading mining and exploration companies, including Kier International, Costain Mining and Shell International.

6. Sir Malcolm Field
Senior Non-Executive Director
Sir Malcolm Field was formerly CEO of WH Smith PLC and a non-executive director of Scottish and Newcastle, MEPC, The Stationery Office and Evolution Beeson Gregory and a number of private companies. He was most recently Chairman of the CAA and Tube Lines Ltd. Sir Malcolm is the Senior Independent Director of Hochschild Mining PLC.

7. Peter Hambro
Non-Executive Deputy Chairman
Peter Hambro was a banker and then Deputy Managing Director of Mocatta and Goldsmid. He founded Peter Hambro Ltd as a mining finance house in London. He is, together with Pavel, one of the founding shareholders and the Chairman of Peter Hambro Mining plc.

8. Sir Roderic Lyne
Non-Executive Director
Sir Roderic Lyne was appointed to the Board in October 2006. Sir Roderic served as British Ambassador to Russia from January 2000 until August 2004, when he retired from the Diplomatic Service after 34 years. He now works as a consultant, principally advising businesses on Russia and the CIS. He is an advisor to BP plc and to JPMorgan Chase, a member of the Council of the Royal Institute of International Affairs, a member of the Board of the Russo-British Chamber of Commerce and of the Board of Governors of Kingston University.

9. Tony Redman
Non-Executive Director
Tony Redman worked at Anglo American from 1970 to 2008. In 1979, he moved to the Anglo Coal division, where he was appointed Managing Director in 1996 and Chairman in 2002. In 2005, he became Group Technical Director of Anglo American plc. He was also a non-executive director of Anglo Platinum Limited, listed on the Johannesburg Stock Exchange, and a director of Anglo American South Africa Limited. He retired from Anglo American at the end of 2008.

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Corporate Governance and Financial Statements

Financial Review

Results of Operations
The Group made a loss after tax for the year of US$426.6 million compared to a profit after tax in 2007 of US$0.1 million. The current year's loss includes an impairment charge of US$386.4 million.

The Group recognised revenue from operations of US$9.7 million during the year ended 31 December 2008 (2007: US$4.9 million), comprising US$9.2 million (2007: US$4.9 million) of revenue generated from its engineering services company, Giproruda, and sales of iron ore pre-concentrate of US$0.5 million from Kuranakh (2007: nil).

Administration expenses have increased as expected, from US$24.9 million to US$30.9 million primarily due to an increase in salary costs, consultancy costs, rent and general overheads in connection with the expansion of the Group's activities. Average staff numbers for the year increased from 228 in 2007 to 641 in 2008.

Due to the current world economic crisis, as with many other mining companies, the Board reviewed the Company's portfolio of assets and provided for impairment where it considered it prudent to do so. Consequently, an impairment provision of US$386.4 million was recognised by the Group.

The key assumptions to the impairment review are described in note 8 to the Consolidated Financial Statements.

Investment Revenues
Income from investments and cash balances has decreased from US$21.5 million in 2007 to US$15.5 million in 2008 due to lower interest rates earned on deposits and lower average cash balances held throughout the year.

Finance Costs
Finance costs increased from US$0.6 million in 2007 to US$23.2 million in 2008. This is primarily due to the adverse impact of foreign exchange differences on the Group's Rouble denominated funds in the second half of 2008, which more than eliminated exchange difference on deposits held in Russian Rouble denominated funds accumulated during the first six months of 2008. The Group's policy had been to hold a substantial portion of cash in Russian Roubles in order to hedge against Russian Rouble denominated capital and operating expenditure.

Tax
A tax charge recognised for the year of US$5.6 million (2007: US$2.0 million credit) relates primarily to the reduction in the deferred tax asset on deductible temporary differences due to foreign exchange movements of US$4.4 million and tax on the operating profit generated by Giproruda being US$0.7 million.

Financial Position
The Group's balance sheet at 31 December 2008 and comparatives at 31 December 2007 are summarised in the table below:

	2008 US$'000	2007 US$'000
Non-current assets	**468,189**	569,768
Current assets	**310,493**	594,681
Total assets	**778,682**	1,164,449
Current liabilities	**(16,175)**	(13,174)
Non-current liabilities	**(4,641)**	(8,879)
Total liabilities	**(20,816)**	(22,053)
Net assets	**757,866**	1,142,396

Net assets decreased by US$384.5 million to US$757.9 million, primarily due to an impairment provision of US$386.4 million recognised against Kuranakh, and the combined K&S and Garinskoye projects. The impairment is described in more detail in note 8 to the Consolidated Financial Statements.

Non-current assets have decreased by US$101.6 million, mainly due to additions to property, plant and equipment, being capital expenditure of US$108.1 million, the acquisition of 29.36% minority interest in the Garinskoye licence for US$110.7 million, the acquisition of the Kostenginskoye and Garinskoye Flanks licences for US$53.9 million, our equity share of the Titanium Sponge joint venture of US$20.4 million, offset by an impairment provision of US$386.4 million.

Current assets have decreased by US$284.2 million mainly due to a reduction in short-term investments and cash and cash equivalents of US$240.7 million and the short-term US$65.1 million loan receivable from Olis being offset against the purchase consideration for the acquisition of the remaining 29.26% interest in Lapwing. There is an increase in current receivables and inventory due to the start up at Kuranakh.

Acquisition of Assets
During the year the Group completed the acquisition of a further 29.36% interest in Lapwing from Olis and PBO Handelsges M.B.H ('PBOH') and completed the acquisition of a 100% interest in the Kostenginskoye and Garinskoye Flanks licences.

These acquisitions are described in further detail in note 33 to the Consolidated Financial Statements.

Property, Plant and Equipment
A further US$108.1 million was invested in property, plant and equipment during the year mainly related to the construction at Kuranakh. Following the completion of the acquisition of a further 29.36% interest in Garinskoye, approximately US$110.7 million was allocated to Mining Properties and Leases.

However due to a potential delay in the planned development of various projects, primarily because of a slow project financing market and forecast weaker iron ore prices, an impairment provision of US$386.4 million was recognised by the Group against the Kuranakh project (US$86.5 million) and the combined K&S and Garinskoye project (US$299.9 million). The impairment is described in more detail in note 8 to the Consolidated Financial Statements.

Cash Flows
Cash and cash equivalents and short-term investments decreased by US$240.7 million to US$257.8 million (2007: US$498.5 million).

The net cash outflow from operating activities for 2008 was US$51.9 million (2007: US$12.9 million) reflecting increased costs associated with the Group's commencement of mining activities at Kuranakh, and administrative costs associated with the further development of the other projects. Net cash used in investing activities was US$70.0 million (2007: US$281.8 million), comprising mainly of US$20.8 million paid as our contribution to the share capital of Titanium Sponge JV, US$45.0 million paid for the options to acquire Kostenginskoye and Garinskoye Flanks and capital expenditure of US$108.5 million (2007: US$76.7 million) offset by proceeds from the disposal of short-term investments of US$113.3 million (2007: US$10.8 million) and investment income of US$16.5 million (2007: US$16.5 million).

The Group has a cash balance which is managed in accordance with a Board approved treasury policy and spread across a number of financial institutions in order to reduce the exposure to any one counterparty. The majority of the cash balance is held with highly rated UK based institutions.

The Group holds deposits in US Dollars, GB Pounds and Russian Roubles as appropriate, so as to hedge against currency exposures. However, rapid depreciation of the Russian Rouble against the US Dollar at the end of 2008, affected the cash holdings of the Group. The total effect of the retranslation of foreign currency denominated balances in 2008 resulted in a foreign exchange loss of US$22.6 million. The Group has implemented a new legal structure and new treasury policies in order to help minimise future foreign exchange exposure.

A positive economic effect of Russian Rouble and GB Pound depreciation is the reduction in operating costs in US Dollar equivalent.

Events After the Balance Sheet Date
On 6 February 2009 the respective independent Committees of the Boards of Directors of Peter Hambro Mining plc ('PHM') and Aricom announced that they had reached agreement on the terms of a recommended merger of the two companies by which all of the issued share capital of Aricom will be acquired by PHM, in exchange for shares in PHM.

Following completion of the merger, existing shareholders of PHM and Aricom will hold 56.8% and 43.2% of the enlarged group respectively, calculated on an undiluted basis.

The merger provides for the acquisition of Aricom shares to be effected by way of a court sanctioned scheme of arrangement under Part 26 of the Companies Act involving a capital reduction of Aricom under section 135 of the Companies Act 1985 ('the Scheme').

The purpose of the Scheme is to enable PHM to acquire the whole of the issued and to be issued ordinary share capital of Aricom. Under the terms of the Scheme, if the Scheme becomes effective, all Aricom shares will be cancelled and Aricom shareholders will receive one fully paid new PHM share in exchange for 16 fully paid Aricom shares.

The merger valued each Aricom share at: 36.6 pence using the closing price per PHM share on 4 February 2009 of 585 pence, being the last day before PHM announced its cash placing; 30.9 pence using the closing price per PHM share on 5 February 2009 of 495 pence, being the last day prior to the announcement of a firm intention to make an offer; and it valued each Aricom share at 24.9 pence using the price per PHM share on 8 January 2009, being the last day prior to the offer period, of 398 pence.

Going Concern Basis
As at 31 December 2008, the Group had cash balances of US$257.8 million. Given the challenging project finance market, the Directors are reviewing all operating costs and capital expenditure plans to ensure that significant further expenditures over and above those currently committed will not be committed until further funding is assured.

In connection with the proposed merger, the Board has reviewed projections of the enlarged group, and following the placing, is satisfied that the enlarged group will have sufficient funds for the foreseeable future.

Accordingly, at the time of approving the Consolidated Financial Statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Brian Egan
Chief Financial Officer
25 February 2009

Corporate Governance

The Combined Code
The Group is committed to high standards of corporate governance. The UK Listing Authority requires all listed companies listed on a regulated market to disclose how they have applied the principles of and complied with the provisions of The Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 (the 'Combined Code'). This report, together with the Directors' Report, Directors' Remuneration Report and Audit Committee Report, indicates how the Company has applied the principles of good governance of the Combined Code throughout the year ended 31 December 2008 or, where the Company has not complied with the Combined Code, explains the reasons why.

Statement of Compliance
The Group has been in compliance with the provisions of section 1 of the Combined Code throughout the year ended 31 December 2008 save that, as set out in more detail below:
- the Board does not contain sufficient independent Non-Executive Directors to comprise half the Board, excluding the Chairman;
- the Chairman is not independent for the purposes of the Combined Code; and
- the committees of the Board have not been made up of at least three independent Non-Executive Directors.

The Board is responsible for ensuring an appropriate level of corporate governance and intends, to the extent otherwise disclosed, to continue to comply with the main provisions of the Combined Code.

The Board
The Group is led and controlled by the Board of Directors. The Board currently consists of a Non-Executive Chairman, four Executive Directors and four Non-Executive Directors, three of whom are considered to be independent under the Combined Code but all of whom the Board judges to be independent, as explained below. The Board believes that it is appropriate to have a Senior Independent Director and Sir Malcolm Field fulfils this role.

Details of the individuals' skills and experience are contained in the Directors' biographies on page 36.

The Group meets regularly on at least four scheduled occasions during each year and more frequently if necessary. In 2008, there were six scheduled Board meetings, 15 unscheduled Board or Committee meetings, four Audit Committee meetings, five Remuneration Committee meetings, two Nomination Committee meetings and five HSE Committee meetings. The attendance by Directors who held office throughout the year was as follows:

	Scheduled Board	Unscheduled Board/ Committee	Audit Committee	Remuneration Committee	Nomination Committee	HSE Committee
Brian Egan	6	15	4	–	–	4
Sir Malcolm Field[1,2,3,4]	6	3	4	5	2	5
Jay Hambro	6	14	4	3	2	5
Peter Hambro[1,2]	6	1	3	5	1	5
Sir Roderic Lyne[1,2,3,4]	6	3	4	5	2	5
Yuri Makarov	5	2	1	–	–	5
Pavel Maslovskiy[3,4]	6	4	2	2	2	5
Martin Smith[4]	6	4	–	–	–	5

Membership of Committees throughout the year under review:
1 Member of the Audit Committee
2 Member of the Remuneration Committee
3 Member of the Nomination Committee
4 Member of the HSE Committee
Other Directors attended meetings of the Committees by invitation.

The unscheduled Board or Committee meetings in 2008 were held to issue formal approvals, or deal with other matters of a routine or administrative nature, which did not require attendance of the full Board. Such meetings are usually attended by Jay Hambro and Brian Egan and consequently their attendance at meetings is higher than other directors.

In addition, there were 12 Executive Committee meetings in 2008, attended by Brian Egan, Jay Hambro, Yuri Makarov and Martin Smith.

The Board is responsible for the determination and monitoring of the Group's strategic aims and values, the direction and control of the Group and the management of the capital structure and will also ensure that the necessary financial and human resources are, and will continue to be, in place to enable the Group to meet its objectives. The Board works closely with the operational management to achieve the Group's objectives.

The Board has adopted a formal schedule of matters reserved for its decision, such matters include:
- responsibility for strategy and management, including long-term objectives, approval of budgets, review of performance;
- changes to structure and capital;
- approval of accounting policies and of financial results;
- responsibility for sound systems of internal control;
- approval of major investments and contracts;
- approval of material press releases and communications with shareholders;
- review of Board composition, on recommendations by the Nomination Committee;
- review of remuneration policy, on recommendations by the Remuneration Committee;
- delegations of authority;
- corporate governance matters; and
- approval of Group policies.

Individual Directors may seek independent advice at the expense of the Company within certain limits.

The Company maintains appropriate Directors' and Officers' Liability Insurance.

Chairman and Chief Executive
The roles of Chairman and Chief Executive are clearly separated and have been set out in writing. The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information, for facilitating the effective contribution of the Non-Executive Directors and ensuring a constructive relationship between all Directors. The Chief Executive is responsible for the effective leadership of the management team in running the business.

The Chairman holds discussions with Non-Executive Directors without the Executive Directors being present. The independent Non-Executive Directors meet without the Chairman being present at least annually to appraise the performance of the Chairman.

The Chairman and Chief Executive ensure there is appropriate communication with Shareholders and participate in regular and ongoing visits to major Shareholders.

Board Balance and Independence
The Board believes that it has sufficient members to contain a balance of experience and skills, but is not so large as to be unwieldy. The Board includes a balance of Executive and Non-Executive Directors such that no individual, or group of individuals, can dominate the Board's decision making. No one individual has unfettered powers of decision. However, the Combined Code recommends that at least half the Board excluding the Chairman should comprise independent Non-Executive Directors and since there is no majority of Non-Executive Directors excluding the Chairman, the Company does not comply with the Combined Code in this area.

The Board keeps the membership of committees under review to ensure gradual refreshing of skills and experience. The Board is satisfied that all Directors have sufficient time to devote to their roles and that it is not placing undue reliance on key individuals.

The Board has carefully considered the guidance criteria on independence of Non-Executive Directors under the Combined Code, and in relation to the year under review, the Board considers two of the Non-Executive Directors, Sir Malcolm Field and Sir Roderic Lyne, to be independent of the Company as defined by the Combined Code. However, two of the Non-Executive Directors, Peter Hambro and Pavel Maslovskiy (the Chairman), would not be viewed as independent and therefore the Company did not comply with the Combined Code in this respect. However, the Board believes that independence is not a state of mind that can be measured objectively and, given the character, judgement and decision making process of the individuals involved, the Board believes that these Directors can be considered independent.

Further to the appointment of Tony Redman on 1 January 2009, three of the five Non-Executive Directors will be considered independent as defined by the Combined Code. Tony Redman has been appointed as a member of the Audit, HSE, Remuneration and Nomination Committees.

The majority of the members of the Nomination Committee and the Remuneration Committee are independent Non-Executive Directors. Given the size of the Company, the Board believes that having a Remuneration Committee comprised of three members and an Audit Committee comprised of four members is appropriate. However, the Combined Code recommends that all members of the Audit Committee and at least three members of other committees should be independent Non-Executive Directors and, until the appointment of Tony Redman, only two members were deemed independent under the Combined Code.

The Board reviews the independence of the Directors annually and all new appointments will be made after consideration of the independence of proposed new Directors.

Sir Malcolm Field has been appointed as the Senior Independent Director and is available to Shareholders if they have concerns which contact through the normal channels has failed to resolve, or for which such contact would be inappropriate.

Information and Professional Development
The Board is supplied with regular and timely information in a form and of a quality that enables it to discharge its duties. All Directors are encouraged to make further enquiries of the Executive Directors or management as they feel appropriate.

The Chairman ensures that all Directors continually update their skills and knowledge, and develop the familiarity with the Company's operations needed to fulfil their role, for example, by briefings by executive management and regular Board reporting. The Company provides the necessary resources for developing and updating all Directors' knowledge and capabilities, both on appointment and subsequently as necessary. In addition, Board committees are provided with sufficient resources, plus the power to co-opt such additional support as they may require from time to time, to undertake their duties.

All Directors have access to the services of a professionally qualified and experienced Company Secretary, who is responsible for information flows to the Board, facilitating induction and assisting with professional development as required, ensuring compliance with Board procedure and applicable laws and regulation and advising the Board on corporate governance matters. The appointment or removal of the Company Secretary is a Board decision.

Performance Evaluation
The Board has introduced a formal performance evaluation procedure for the Board as a whole and for the committees. The Directors complete performance questionnaires relating to the Board and Committees, which are collated and reviewed by the Senior Non-Executive Director prior to the Board, which will consider and review the findings of this process annually. The Remuneration Committee is responsible for the performance review of Directors and the independent Non-Executive Directors are responsible for the performance evaluation of the Chairman.

Re-election of Directors
The Board formally reviews succession plans for all key management roles, including Executive Directorships, on an ongoing basis.

All Directors are required by the Company's Articles of Association to submit themselves to Shareholders for re-election at the first Annual General Meeting after their appointment and thereafter by rotation at least once every three years. At this year's Annual General Meeting, it is intended that Tony Redman will stand for re-election, following his appointment to the Board on 1 January 2009. The Directors retiring by rotation are Pavel Maslovskiy, Peter Hambro and Jay Hambro. In addition, the appointment of each Director is reviewed by other members of the Board prior to that Director seeking re-election at a forthcoming Annual General Meeting. Biographical details of all Directors are included on page 36.

Corporate Governance continued

Board Committees
The Board has established five committees and provides sufficient resources to enable them to undertake their duties. Membership of these committees as at 31 December 2008 is shown below.

	Audit	Remuneration	Nomination	Health, Safety & Environmental	Executive
Non-Executive Directors					
Sir Malcolm Field	Chairman	Chairman	Chairman	Member	–
Peter Hambro	Member	Member	–	–	–
Sir Roderic Lyne	Member	Member	Member	Chairman	–
Dr Pavel Maslovskiy	–	–	Member	Member	–
Executive Directors					
Brian Egan	–	–	–	–	Member
Jay Hambro	–	–	–	–	Member
Yuri Makarov	–	–	–	–	Member
Martin Smith	–	–	–	Member	Member

Terms of Reference of these committees are available on the Company's website at www.aricom.plc.uk

Appointments to the Board and the Nomination Committee
The Board follows a procedure for the appointment of Directors, including an induction programme for the Director concerned.

Aricom has established a separate Nomination Committee which is chaired by Sir Malcolm Field and the other members are Sir Roderic Lyne, Dr Pavel Maslovskiy and, with effect from 1 January 2009, Tony Redman. The Nomination Committee will regularly review the structure, size and composition of the Board and make any recommendations to the Board where necessary. The Nomination Committee is responsible for succession planning of Directors and for the identification and nomination of candidates to fill vacancies where necessary.

Appointments are made on merit and against objective criteria. In the case of candidates for Non-Executive Directorships, care is taken to ascertain whether they have sufficient time available to meet their Board and, where relevant, Committee responsibilities. As part of this process, candidates disclose all other time commitments and, on appointment, undertake to inform the Board of any changes. The terms and conditions of appointment of all Directors are available for public inspection.

Tony Redman was appointed as a Non Executive Director on 1 January 2009. In considering the appointment of a new Director, the Nomination Committee appointed an external consultant, Odgers, in which Sir Malcolm Field had declared an interest since he was a director of this company. The Committee reviewed a number of candidates provided by Odgers but agreed that the most suitable candidate was Mr Redman, who had been recommended to the Board by an independent party.

The Chairman is the Chief Operating Officer of Peter Hambro Mining plc and Director of various subsidiary companies in the Peter Hambro Mining Group. The Chief Executive Officer is a Non-Executive Director of Peter Hambro Mining plc. Changes to these commitments will be reported to the Board.

Remuneration and the Remuneration Committee
While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting solely of Non-Executive Directors, is responsible for determining the remuneration and conditions of employment of Executive Directors and senior Executives. Directors abstain from decisions determining their own remuneration. A report on Directors' remuneration, including a more detailed description of the role and activities of the Remuneration Committee is set out on pages 48 to 52.

The Company's policy is that no compensation will be payable when a Director's appointment is terminated for reasons of unsatisfactory performance.

The Company has in place a Long Term Incentive Plan which was established during 2007. Contrary to Combined Code requirements, Shareholder approval was not sought since there was no legal requirement to seek such approval as, at the time of adoption, the Company was not listed on the Main Board. However, details were included in the listing document.

Accountability and Audit and the Audit Committee
The Board pays careful attention to ensuring that all documents released by the Group and the Company, including the Annual Report, present a fair and accurate assessment of the Group and the Company's position and prospects.

The Board is responsible for the Group and the Company's system of internal controls, excluding associates, and conducts an annual review to identify and evaluate risk, including financial, operational and compliance risk, and to review the effectiveness of the system of internal controls. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material mis-statement or loss. In accordance with the Revised Turnbull Guidance, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and the Board is satisfied that the system of internal controls has operated effectively throughout the year and that it has taken any necessary actions to address any issues arising.

The Company has established an Audit Committee and a report by this committee is set out on pages 46 to 47.

The Audit Committee reviews an internal controls report at each meeting and the Company's Governance and Control Policy and Procedure manual is reviewed and updated regularly and circulated to the Board and senior management for review.

The Audit Committee routinely receives reports relating to the external audit process and discusses matters of internal control.

The Audit Committee reviews non audit services provided by the External Auditors, details of which are disclosed in note 10 on page 78. The Committee is satisfied that the objectivity and independence of the auditors is maintained.

HSE Committee
The Health, Safety and Environmental Committee consists of four Non-Executive Directors and one Executive Director and is responsible for Aricom's staff, the communities within which the Company operates and to the environment of the project areas.

Aricom's environmental, health, safety and social policies are designed to comply with both Russian regulatory requirements as implemented under the supervision of the Environmental Protection Agency of the Russian Federation ('Rosprirodnadzor') and with international good practice. The Company uses best endeavours to comply with the International Finance Corporation ('IFC') performance standards on social and environmental sustainability as well as with the IFC Environmental, Health and Safety ('EHS') guidelines. The IFC, which invested in the Group in 2007, undertakes a full environmental and social audit of our operations on a regular basis and maintains strong communication with the HSE Committee.

During 2007, the Company appointed Wardell Armstrong International ('WAI') as independent HSE auditors. They will conduct biannual site visits and reviews and report directly to the Board of Directors through the HSE Committee.

Executive Committee
The Executive Committee consists of the four Executive Directors and is responsible for the day to day management of the Company and for ensuring that the overall objectives set out by the Board are achieved.

The Committee ensures that the Board is kept up to date on all material events and makes recommendations regarding business objectives and the strategic direction and control of the Company.

The Committee also ensures coordination between senior managers, manages the Company's operational, financial and administration performance and is responsible for the assessment and management of risk.

Related Party Transactions
The Company has established procedures to ensure that all transactions with related parties are reviewed and approved by members of the management and the Board who have no conflict of interest in the given transaction. Where appropriate, due to the required level of authority, transactions are reviewed by a committee of members of the Board who are independent of the transaction. Full details of the related party transactions are given in note 39 to the Consolidated Financial Statements.

Relations with Shareholders
The Combined Code encourages a dialogue with institutional Shareholders based on the mutual understanding of objectives. The Directors (including the Non-Executive Directors) have regular and ongoing communication with institutional Shareholders and Executive Directors participate in investor roadshows, visits to Shareholders and scheduled half yearly updates. Feedback from these visits is reported to the Board to ensure that the Board understands the views of major Shareholders. In addition, the Chairman routinely offers Shareholders the opportunity of meeting with either himself, the Chief Executive or the Senior Independent Director to discuss governance, strategy or any other matters Shareholders wish to raise.

The Company maintains a website at www.aricom.plc.uk which is regularly updated and contains a wide range of information about the Group.

The Combined Code encourages boards to use the annual general meeting to communicate with investors and to encourage their participation. The Board welcomes as many Shareholders as possible to attend the Annual General Meeting and Shareholders are given the opportunity at the Annual General Meeting to discuss any issues of interest or concern, including performance, governance or strategy, with the Directors.

At general meetings, the Chairman will announce the level of proxies lodged on each resolution, the balance for and against and abstentions, after it has been dealt with on a show of hands. A separate resolution will be proposed at the Annual General Meeting in respect of each substantially separate issue. The Chairman of the Audit, Remuneration and Nomination Committees will deal with matters relating to those committees.

Approval
This report was approved by the Board of Directors of Aricom plc and signed on its behalf by:

Heather Williams FCIS
Company Secretary
25 February 2009

Audit Committee Report

Summary of the Role of the Audit Committee
The Audit Committee is appointed by the Board from the Non-Executive Directors of the Company and has defined Terms of Reference. The Audit Committee's terms of reference include matters indicated by the Combined Code and are available on the Company's website. The Audit Committee is responsible for:

- monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements in respect of the preparation of the half-yearly and annual financial statements, preliminary results and related formal statements before submission to the Board;
- reviewing the Group's internal financial controls and, unless expressly addressed by the Board itself, the Group's internal control and risk management systems;
- reviewing the consistency of, changes in and compliance with accounting policies and practices; the judgements and assumptions of management; significant financial reporting issues and judgements; estimates and judgements made by the Company, taking into account the views of the External Auditor; significant adjustments;
- reviewing the going concern assumption;
- reviewing the methods used to account for significant or unusual transactions;
- reviewing the clarity and completeness of disclosures in financial statements;
- reviewing material information related to the financial statements including the business and financial review and Corporate Governance statements;
- ensuring compliance with the requirements of the UK Listing Authority and with other applicable legal requirements.
- discussing problems and reservations arising from the preparation and audit of such financial statements, and any matters which the External Auditors may wish to discuss (in the absence of management where necessary) including discussion of any major issues which arose during the audit, any accounting and audit judgements, levels of errors identified during the audit;
- reviewing the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and reviewing the Company's procedures for detecting fraud;
- making recommendations to the Board, for a resolution to be put to the Shareholders for their approval in general meeting, in relation to the appointment of the External Auditors and the approval of the remuneration and terms of engagement of the External Auditors;
- reviewing and monitoring the External Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- assessing annually the External Auditors' qualifications, expertise and resources and the effectiveness of the audit process including a report from the External Auditors on their internal quality procedures; and
- developing and implementing a policy on the engagement of the External Auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

Composition of the Audit Committee
The members of the Audit Committee are:

Name	Date of appointment
Sir Malcolm Field (Chairman)	1 August 2006
Peter Hambro	12 December 2003
Sir Roderic Lyne	3 October 2006
Tony Redman	1 January 2009

Membership of the Committee is reviewed by the Chairman of the Committee and the Company Chairman, who is not a member of the Audit Committee, at regular intervals and they recommend new appointments to the Committee. The Committee is currently comprised of four Non-Executive Directors and two members constitute a quorum. The Board considers that the Chairman of the Committee has recent and relevant financial experience through his career in business and his appointment to other Boards.

The Company has a policy of providing training to Directors where required. Ongoing training can include attendance at formal conferences, internal briefings, briefings by external advisers and visits by Directors to operations in the business.

The Board expects the Audit Committee members to have an understanding of:
- the principles of, contents of, and developments in financial reporting including the applicable accounting standards;
- key aspects of the Group's operations including corporate policies, Group financing, and systems of internal control;
- matters that influence or distort the presentation of accounts;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management;
- the regulatory framework for the Group's businesses; and
- environmental and social responsibility best practices.

Meetings
The Audit Committee meets at least twice a year and has an agenda linked to events in the Group's financial calendar, including a review of the Group's annual and half yearly results, the review of the internal controls of the Group and ensuring that the financial performance of the Group is properly reported on and monitored. The agenda is predominantly cyclical and is approved by the Audit Committee Chairman in advance of each meeting. Each Audit Committee member has the right to require reports on matters of interest in addition to the routine items.

The Chief Executive Officer, the Chief Financial Officer and a representative of the External Auditors are invited to attend meetings of the Audit Committee and attended all Audit Committee meetings held in 2008. Senior management present such reports as are requested by the Committee to enable it to discharge its duties.

Overview of the Actions Taken by the Audit Committee to Discharge its Duties
Since the beginning of 2008 the Audit Committee has:
- reviewed the financial statements for the year ended 31 December 2007, the interim report for the period ended 30 June 2008 and the financial statements for the year ended 31 December 2008. The Committee received reports from the External Auditors on their audits of the annual reports and accounts and review of the interim report;
- reviewed and agreed the scope of the audit work to be undertaken by the External Auditors;

- recommended to the Board the fees to be paid to the External Auditors for their audit of the 2008 accounts;
- reviewed the Letters of Representation provided to the External Auditors relating to the financial periods ended 31 December 2007, 30 June 2008 and 31 December 2008;
- reviewed the Letters of Engagement relating to the review and audit for the financial periods ended 30 June 2008 and 31 December 2008 respectively;
- reviewed the legal and financial structure of the Group;
- reviewed the going concern status of the Group and the ability to publish a going concern statement in the Report & Accounts for the year ended 31 December 2008;
- review of the requirements relating to the impairment of the Group's assets;
- reviewed the accounting treatment relating to the Group's projects and to the LTIP allocations; and
- reviewed the risks associated with the Group's business.

External Auditors
The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day-to-day responsibility to the Group Finance Director.

The Group's policy on external audit sets out the categories of non-audit services which the External Auditors will and will not be allowed to provide to the Group, subject to de minimis levels and Audit Committee Chairman approval in emergency situations.

To fulfil its responsibility regarding the independence of the External Auditors, the Audit Committee reviewed:
- the changes in key external audit staff in the External Auditors' plan for the current year;
- the arrangements for day-to-day management of the audit relationship; and
- the overall extent of non-audit services provided by the External Auditors, in addition to their case by case approval of the provision of non-audit services by the External Auditors.

To assess the effectiveness of the External Auditors, the Audit Committee reviewed:
- the External Auditors' fulfilment of the agreed audit plan and variations from the plan; and
- the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements.

As a consequence of its satisfaction with the results of the activities outlined above, the Audit Committee has recommended to the Board that the External Auditors are re-appointed.

Internal Audit Function
The Group does not currently have an Internal Audit function since the scale and operations of the Group are such that there is currently deemed no requirement for an Internal Audit function. The Audit Committee is required to review the Group's internal financial controls and, where required, review the Group's internal control and risk management systems and statement on internal control systems prior to endorsement by the Board.

Overview
As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the External Auditors.

It is intended that the Chairman of the Audit Committee will be available at this year's Annual General Meeting to answer any questions about the work of the Committee.

Approval
This report was approved by the Audit Committee and signed on its behalf by:

Sir Malcolm Field
Chairman of the Audit Committee
25 February 2009

Directors' Remuneration Report

Introduction
This report is prepared in GB Pounds ('GBP' or '£') as the Company is headquartered in England, has GB pound functional currency and the Directors are predominantly paid in that currency.

The report describes how the Board has applied the principles relating to Directors' remuneration.

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. It is intended that an Ordinary Resolution to approve this report will be put to the members at this year's Annual General Meeting, but the Directors' remuneration is not conditional upon the resolution being passed. The report has been divided into separate sections for audited and unaudited information.

Unaudited Information
Remuneration Committee
The Remuneration Committee is chaired by Sir Malcolm Field and the other members throughout the year under review were Peter Hambro and Sir Roderic Lyne. With effect from 1 January 2009, Tony Redman replaced Peter Hambro as a member of the Remuneration Committee.

None of the members of the Remuneration Committee has any personal financial interest (other than as Shareholders) or day-to-day involvement in running the business. The Remuneration Committee makes recommendations to the Board.

The Remuneration Committee is responsible for the review of the performance of the Executive Directors. The remuneration and conditions of employment of Executive Directors and senior Executives are determined by the Remuneration Committee. Directors abstain from decisions determining their own remuneration. The Remuneration Committee works with the Chief Executive on all aspects of remuneration except his own and sets the remuneration of the Chief Executive. The scale and structure of the Executive Directors' remuneration is approved on the basis of their performance, the performance of the Company and their service agreements with due regard to the interests of the Shareholders and the Company as a whole. The Remuneration Committee can make recommendations to the Board concerning employee incentives.

Bearing in mind the provisions of the Combined Code, the Remuneration Committee is required to review at least annually the remuneration package (comprising base salary, any performance-related element of salary or bonus, participation in share option schemes and other benefits) of each Executive Director as proposed by the Chief Executive or previously agreed by the Remuneration Committee.

The Remuneration Committee is required, at least once a year, to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

Remuneration Policy for the Executive Directors
The Group operates in a highly competitive marketplace for senior skilled management which places a strong emphasis on above average rewards for outstanding performance. An overriding objective is to ensure that the approach to remuneration is simple and clear.

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the calibre needed to develop and run the Group's businesses and to reward them for enhancing value to Shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

As a result, the Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance-related. In structuring the Executive Directors' remuneration, the Remuneration Committee's expectation is that the split between performance based and fixed would be 60%:40%.

The Company's remuneration policy is that the remuneration is decided annually by the Remuneration Committee.

There are five main elements of the remuneration package for Executive Directors and senior management:
- basic annual salary;
- benefits-in-kind;
- performance based bonus payments;
- share option incentives; and
- pension arrangements.

Executive Directors are entitled to accept appointments outside the Company providing that the Chairman's permission is obtained in advance of any such appointment. Jay Hambro is also a Non-Executive Director of Peter Hambro Mining plc and received and retained an annual fee of £61,000 for the year ended 31 December 2008.

Basic Salary
Each Executive Director's basic salary is reviewed by the Committee at the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on a comparator group of companies. It is intended that executive Directors' contracts of service will be available for inspection at the Annual General Meeting.

Awards 2008/2009
Basic salary awards were made as follows for Executive Directors:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Brian Egan	**218**	81[1]
Jay Hambro	**275**	208
Yuri Makarov	**204**	159
Martin Smith	**185**	141

1 Brian Egan was appointed as a Director with effect from 31 July 2007

At the January 2009 salary review, no salary increases were awarded to Directors.

Benefits-in-Kind
The Executive Directors receive certain benefits-in-kind, for example car allowance and private medical insurance.

Annual Bonus Payments
The Committee establishes specific objectives that must be met for each financial year if a performance-related bonus is to be paid; the objectives for 2008 are shown below. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's Shareholders. Account is also taken of the relative success of the different parts of the business for which the Executive Directors are responsible and the extent to which the strategic objectives set by the Board are being met. The maximum performance-related bonus that can be paid is 100% of basic annual salary. In exceptional circumstances specifically described, the Remuneration Committee can award bonuses above 100% of annual salary.

Bonus Awards 2008
The objectives and achievements for 2008 covered the following:

- The need for significant advances with K&S and Garinskoye projects through moving from scoping to bankable feasibility. The favourable project economics were presented to shareholders and to the market in October 2008. This independent result justified the judgement made by Executive Management at the time of acquiring the asset. Full bonus for this objective was awarded.
- The acquisition of valuable strategic assets of Kostenginskoye and Garinskoye Flanks in July 2008. A successful bid presented by management against considerable opposition. Full bonus was awarded.
- Although slightly delayed the start of the crushing and screening plant at Kuranakh. Overall successful operational delivery but with a reduced bonus award.
- Progressing further to the establishment of the JV with Chinalco, an important strategic partner for the development of Titanium Sponge where plant construction has commenced and which is on course to start production in 2010. A bonus was awarded for finding an appropriate partner and establishing joint venture arrangements.
- The swift implementation of a cost cutting exercise and conserving of cash.

Against the achievement of the above objectives the delivery of the beneficiation plant at Kuranakh has been delayed to mid 2009. No bonus was awarded in respect of this objective.

Executive Directors may earn annual incentive payments of up to 75% of their basic salary (Chief Executive: 100%) together with the benefits of long term share option incentives.

Incentive payments for the year ended 31 December 2008 varied between 45% and 60% of basic salary, 10% of which was required to be taken in shares purchased in the market by recipients within one month of the announcement of the 2008 results and to be held for not less than 12 months from the date of the purchase of the shares. See table on page 51.

Share Options
During the year ended 31 December 2003, following approval at the Annual General Meeting, the Company established a share option scheme (the 'Share Option Scheme'). The reason for the scheme was to incentivise the Executive Directors. The Committee had responsibility for supervising the scheme and the grant of options under its terms.

There were no performance criteria to be met as it was considered that the share price performance was the best indicator of performance of the Executive Directors and the options granted could be exercised (by the issue of new shares) after a period of three years from the date the option was granted. Thereafter the option could be exercised for the rest of its life without further test, normally provided the grantee is still in employment with the Company.

The exercise price of the options granted under the above scheme would be equal to the market value of the Company's shares at the time when the options were granted.

The Company's policy has been to grant options to Directors at the discretion of the Remuneration Committee, taking into account individual performance normally up to a maximum of two times annual salary. It has been the Company's policy to phase the granting of share options rather than to award them in a single large block to any individual other than on commencement of employment.

No amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options.

No further options over ordinary shares will be granted under the Company's existing share option scheme following the establishment of the Long Term Incentive Plan (see below).

Long Term Incentive Plan
During the year ended 31 December 2007, the Company established a Long Term Incentive Plan ('LTIP') to operate in conjunction with an Employee Benefit Trust ('EBT') to provide an effective and flexible means of holding assets for the benefit of employees and their families and providing valuable long-term benefits. Contributions to the EBT will be at the discretion of the Remuneration Committee, which will also recommend allocations under the LTIP. The EBT is administered and operated by an independent trustee. A second allocation under the LTIP was implemented during the year ended 31 December 2008.

The potential beneficiaries of the LTIP include a number of the Executive Directors (see table below) and also some senior managers within the Group.

The shares allocated to the EBT under the LTIP vest three years from the date of allocation and a number of pre-set objectives will need to be fulfilled for the LTIP to vest. The full details of these objectives contain commercially sensitive information and must be fulfilled in order for the shares to vest in full The Remuneration Committee expects to publish the objectives in detail at the time of vesting.

The objectives under the allocations cover the delivery of mining and production levels of ilmenite and titanomagnetite from Kuranakh, the delivery of an appropriate financing package to fund both the K&S and Garinskoye projects through to the commencement of mining operations, the appointment of contractors to build the necessary infrastructure and the achievement of predetermined operating profit levels. In addition, the implementation of these developments must be conducted to the standards set by the HSE Committee of the Board for Safety, Health Environment and Communities.

Directors' Remuneration Report continued

The structure of the LTIP is that, on each allocation, a subsidiary of Aricom will provide an interest free loan to the EBT to enable the EBT to subscribe for new ordinary shares in Aricom at market value. These ordinary shares will be held by the EBT on behalf of the potential participants for the vesting period, together with any Aricom shares already held by the EBT which have not previously been allocated under the LTIP. These shares are therefore held by the EBT on behalf of the potential participants for the vesting period and, should the Remuneration Committee advise the Trustees that the LTIP objectives have been successfully achieved, the shares will be sold, the loan repaid and the gains on the shares passed to the participants, subject to the provisions of the EBT. Shares are not allotted directly to the participants of the scheme.

The allocations made under the LTIP are disclosed on page 52.

The following rules have been set for the operation of the LTIP:

- The maximum number of ordinary shares that may be allocated under the LTIP shall not exceed at any time 5% of the Company's issued share capital;
- The number of ordinary shares which may be held in the EBT shall not at any time exceed 5% of the Company's issued share capital;
- No further options over ordinary shares will be granted under the Company's existing share option scheme; and
- Awards under the LTIP will be subject to agreed performance conditions as established by the Remuneration Committee. However, completion of the performance conditions can be waived by the trustees at their sole discretion, but having regard to any recommendations by the Remuneration Committee, in circumstances where such conditions have become either inappropriate or overly onerous by external circumstances.

Pension Arrangements

Executive Directors have their own pension arrangements and are not members of a company pension scheme.

The Company has agreed to make contributions equivalent to between 15% and 17.5% of basic salary into the personal approved pension schemes of the Directors and employees. Amounts paid to Directors are set out in the Schedule of Directors' Emoluments and Compensation on page 51.

Directors' Contracts

It is the Company's policy that Executive Directors should have contracts for an indefinite term providing for up to a maximum of one year's notice. However, it may be necessary occasionally to offer longer notice periods to new Directors. Where this arises, it is the Company's policy to reduce the notice period to one year within two years of appointment of the Director. The service contract of Jay Hambro, who was appointed a Director in 2006, provides for a notice period of 12 months. All other Executive Directors have contracts which are subject to either three or six months' notice by either party.

It is intended that Tony Redman, Pavel Maslovskiy, Peter Hambro and Jay Hambro be proposed for re-election at this year's Annual General Meeting. Their notice periods, and those of the other Directors, are as follows:

	Date of contract	Notice period
Executive Directors		
Brian Egan	10/07/2007	6 months
Jay Hambro	01/09/2006	12 months
Yuri Makarov	26/04/2004	3 months
Martin Smith	04/04/2006	6 months
Non-Executive Directors		
Sir Malcolm Field	01/01/2007	3 months
Peter Hambro	12/12/2003	3 months
Sir Roderic Lyne	26/09/2006	3 months
Dr Pavel Maslovskiy	12/12/2003	3 months
Tony Redman (appointed 01/01/2009)	04/08/2008	3 months

In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice period. No compensation will be payable when a Director's appointment is terminated for reasons of unsatisfactory performance.

Non-Executive Directors

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board and based on independent surveys of fees paid to Non-Executive Directors of similar companies. The basic fee paid to each Non-Executive Director in the year was £30,000. The Non-Executive Directors receive further fees for additional work performed for the Company in respect of membership of the Remuneration Committee, Nomination Committee, Health, Safety and Environmental Committee and Audit Committee. The additional fees paid to Non-Executive Directors are at a rate of £10,000 for membership of the Audit Committee and HSE committee, £5,000 for chairmanship of the Audit Committee and HSE committee, £5,000 for membership of the Remuneration Committee and Nomination Committee and £2,500 for chairmanship of the Remuneration Committee and Nomination Committee. The Chairman of the Company is paid a further £65,000 and the Senior Non-Executive Director a further £15,000. Non-Executive Directors were not able to participate in the Company's share option scheme with the exception of options granted at the initial listing of the Company on AIM in 2003.

Directors' Interests in Contracts of Significance

None of the Directors have interests in contracts of significance with the Company or with any of its subsidiaries.

Related party contracts are set out in note 39 to the Consolidated Financial Statements.

Audited Information

Aggregate Directors' Remuneration

The total amounts for Directors' remuneration were as follows:

	2008 £'000	2007 £'000
Emoluments	**1,668**	1,788
Compensation for loss of employment	**–**	30
Gains on exercise of share options	**–**	440
Contributions to personal pensions	**89**	73

Directors' Emoluments and Compensation
The main elements of the remuneration of the Chairman and the Directors were paid in sterling (except for Yuri Makarov as noted below) and were as follows:

	Basic salary/ fees £'000	Pension £'000	Other benefits £'000	Bonus £'000	**Total 2008 £'000**	Total 2007 £'000
Executive Directors						
Brian Egan	218	22	18	103	**361**	171
Jay Hambro	275	48	3	165	**491**	525
Yuri Makarov	204	–	1	90	**295**	311
Martin Smith	185	19	3	83	**290**	297
Non-Executive Directors						
Sir Malcolm Field	85	–	–	–	**85**	84
Peter Hambro	60	–	–	–	**60**	60
Sir Roderic Lyne	65	–	–	–	**65**	64
Dr Pavel Maslovskiy	110	–	–	–	**110**	109
Former Director						
Peter Howes	13	1	–	–	**14**	270
	1,215	90	25	441	**1,771**	1,891

Basic salary/fees includes fees paid to Non-Executive Directors in respect of membership of committees as set out above.

- Brian Egan was appointed as a Director of the Company with effect from 31 July 2007 and his salary included in the aggregate figure above reflects this. He is entitled to a car allowance of £12,000 per annum, which is included in other benefits above.
- Yuri Makarov's salary includes a rouble salary of RuR 2,160,000 from Aricom LLC.
- Sir Malcolm Field's fees for the eight months to August 2008 were paid to a third party, Anne Charlton Limited.
- Peter Howes resigned as a Director of the Company with effect from 31 July 2007 and was awarded a payment of £30,000 as compensation for loss of employment in 2007.
- The remuneration of the highest paid Director was £491,000 (2007: £525,000).
- The bonus figures are inclusive of the 10% bonus deferral as explained above.

A special bonus was paid in 2007 in recognition of the work involved relating to the admission of the Company's shares and warrants to the Official List of the Financial Services Authority and to trading on the Main Market of the London Stock Exchange plc and in relation to the fundraising in 2007. This bonus was approved by the Remuneration Committee and was paid in addition to the Company's annual bonus policy.

Directors' Share Options
Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

Details of options over shares for Directors who served during the year are as follows:

Share Options
The current share options held by Directors and the movement during the year is set out below:

	Number of shares under option as at 1 January 2008	Granted during the year	Exercised during the year	Number of shares under option as at 31 December 2008
Executive Directors				
Jay Hambro	2,500,000	–	–	2,500,000
Martin Smith	400,000	–	–	400,000
Yuri Makarov	800,000	–	–	800,000
Former Director				
Peter Howes	400,000	–	(400,000)	–

The options outstanding were issued in accordance with the Aricom plc Share Option Scheme. The exercise price is 42 pence and the exercise dates are between 19 July 2009 and 19 July 2012.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

Options granted under the Share Option Scheme are not subject to performance criteria as explained above. The market price of the ordinary shares at 31 December 2008 was £0.076 and the range during the year was £0.0523 to £1.06.

Directors' Remuneration Report continued

Long Term Incentive Plan
The following awards were made to Directors under the LTIP in October 2007 and October 2008 following recommendations by the Remuneration Committee to the trustees of the EBT:

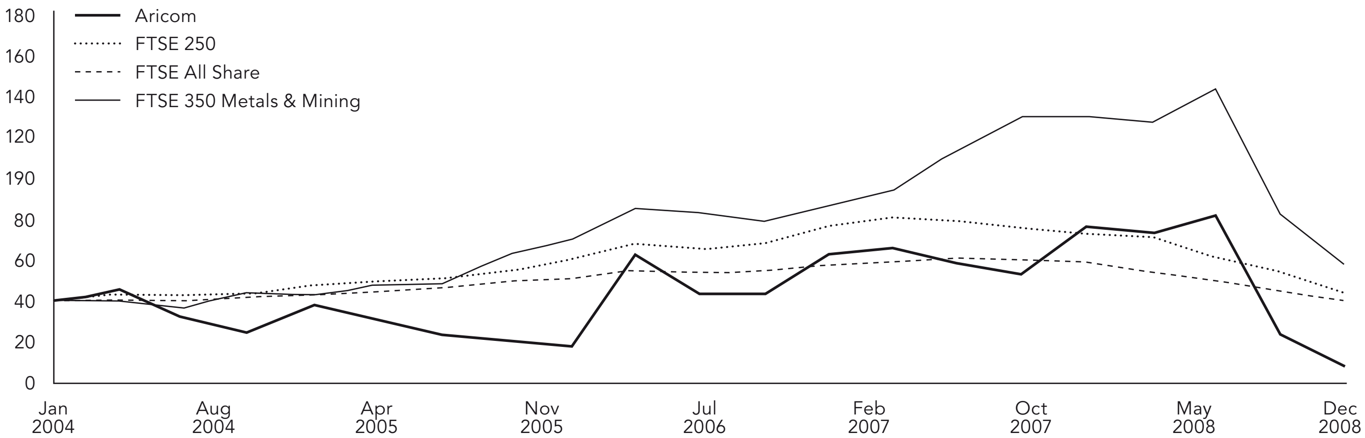
	Date of award	Number	Price	Term
Brian Egan	October 2007	2,000,000	£0.62	3 years
	October 2008	2,000,000	£0.20	3 years
Jay Hambro	October 2007	2,000,000	£0.62	3 years
	October 2008	2,000,000	£0.20	3 years
Yuri Makarov	October 2007	2,000,000	£0.62	3 years
	October 2008	2,000,000	£0.20	3 years
Martin Smith	October 2007	2,000,000	£0.62	3 years
	October 2008	2,000,000	£0.20	3 years

The above are maximum possible allocations, subject to the vesting period and the attainment of objectives as described above. The above allocations refer to the LTIP units and do not refer to numbers of shares. Each LTIP unit entitles the beneficiary to potentially participate in any potential upside in the share price but does not entitle the beneficiary to the underlying shares.

Performance Graph (unaudited)
The Directors consider that the most appropriate measure of the Company's performance is its share price compared with the FTSE 350 Metals & Mining Index, the FTSE All Share Index and the FTSE 250 Index.

A graph showing the Company's share price compared with the FTSE 350 Metals & Mining Index, the FTSE All Share Index and the FTSE 250 Index from the date of admission to trading on AIM until 31 December 2008 is shown below:

Aricom vs FTSE 250, FTSE All Share and FTSE 350 Metals & Mining



Source: Bloomberg, 31 December 2008

Approval
This report was approved by the Board of Directors of Aricom plc and signed on its behalf by:

Sir Malcolm Field
Chairman of the Remuneration Committee
25 February 2009

Directors' Report

Report and Financial Statements
The Directors present their report and the audited financial statements for the year ended 31 December 2008. Comparatives are for the year ended 31 December 2007. The consolidated financial statements have been prepared under International Financial Reporting Standards ('IFRS').

Principal Activity
The principal activity of the Group is the development of a vertically integrated mining, processing and marketing group concentrating on industrial commodities. The main activities and assets of the Group are in Russia and the Group predominantly serves the Russian and Chinese markets.

Enhanced Business Review
The enhanced business review of the Group has been covered by the disclosures contained in the Chairman's Statement on page 10, the Chief Executive Officer's Review on page 11, the Financial Review on pages 40 to 41 and this Directors' Report on pages 53 to 60.

The Key Performance Indicators Review has been covered by the disclosures contained on page 1.

Results, Review of the Business and Future Prospects
The consolidated income statement is set out on page 63. The Directors' report should be read in conjunction with the Chairman's Statement on page 10, the Chief Executive Officer's Review on page 11 and the Financial Review on pages 40 to 41 which include information about the Group's business and performance during the period and an indication of future prospects. Events subsequent to 31 December 2008 are set out in note 40.

The Directors have not recommended the payment of a dividend (2007: nil).

Events Since the Balance Sheet Date
Details of events occurring since 31 December 2008 are set out in note 40 to the Consolidated Financial Statements.

Risk Factors
The exploration for and development of natural resources is a speculative activity that involves a high degree of risk. The Directors believe that, in particular, readers of this report should be aware of these risks and uncertainties. If any of these risks and uncertainties, together with possible additional risks and uncertainties of which the Directors are currently unaware or which they consider not to be material in relation to the Company's business, actually occur, the Company's business, financial position or operating results could be materially and adversely affected. It should be noted that this list is not exhaustive and that certain other risk factors may apply.

In addition, financial risk management disclosures have been made in note 38 to the Conslidated Financial Statements.

The Group may not be able to Finance the Group's Planned Capital Expenditures
The Group's business requires significant capital expenditures, including in exploration and development, production, transport, refining and meeting the Group's obligations under environmental laws and regulations.

However, in the next two to five years the Group expects to finance a substantial part of these capital expenditures out of the proceeds of the Placing in June 2007 and from external borrowings. No assurance can be given that the Group will be able to raise the financing required for its planned capital expenditures, on a secured basis or otherwise, on acceptable terms or at all. If the Group is unable to raise the necessary financing, the Group will have to reduce its planned capital expenditures. Any such reduction could adversely affect the Group's ability to develop any of its mineral resources. If the reductions are severe enough, the Group may not be able to commence operations at one or more of its licensed territories.

If the Group does not perform mineral exploration programmes required by the terms of the relevant licences, these licences may be revoked or may lapse and it will lose all interest that it has in these deposits. The Group's ability to obtain outside financing will depend in part upon the prices of ilmenite and iron ore and the industry's perception of their future price and other factors outside its control. Cash constraints and strategic considerations may also lead the Group to dispose of all or part of its interests in some of its projects or mineral rights or to seek third parties jointly to develop one or more projects.

Geology and Reserves
The exploration for and development of mineral deposits involves significant uncertainties and the Group's operations will be subject to all of the hazards and risks normally encountered in such activities. In addition, any metals exploration programme entails risks relating to the location of economically viable orebodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. No assurance can be given that any metals exploration programme will result in any new commercial mining operation or in the discovery of new resources.

Geological hazards and risks include unusual and unexpected geological formations, rock falls, flooding and other climatic conditions, any one of which could result in damage to, or destruction of, the Group's facilities, damage to life or property, environmental damage or pollution and legal liability which could have a material adverse impact on the business, operations and financial performance of the Company. Although precautions to minimise risk will be taken, even a combination of careful evaluation, experience and knowledge may not eliminate all of the hazards and risks.

As is common with all exploration ventures, there is also uncertainty and therefore risk associated with the Group's operating parameters and costs. These can be difficult to predict and are often affected by factors outside the Group's control. With all metals and minerals operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Metals and minerals exploration is speculative in nature and there can be no assurance that any potential deposits discovered will result in an increase in the Group's mineable resource base. In addition, it may take many years from the initial phase of exploration and drilling before production is possible. During this time, the economic feasibility of exploiting a discovery may change as a result of changes in metal and/or mineral market prices.

Directors' Report continued

Implementation of New Projects
The Group has had limited business activity to date and its mining interests have not yet been fully developed into commercial production. Implementation of the Group's projects will in most cases require, inter alia, conclusion of agreements with third parties and government consents. There is no certainty that any of these will be achieved and thus no certainty that these projects can be implemented or that they will be successful were they to be implemented. In pursuing the proposed projects, the Company may find itself in competition with companies with more substantial resources.

Prices and Demand
The Group's earnings are intended to be principally derived from the mining and processing of metal bearing ores and are therefore related to the market prices of such metals and related products. Iron, iron ore and titanium dioxide are currently trading at levels that are significantly lower than during recent years, and there is no certainty that these prices will be maintained. Although the Group's anticipated costs of mining and production are expected to be relatively low by world standards, the Group's ability to achieve or maintain earnings, pay dividends in the future and undertake capital expenditure may be affected if the price of iron, iron ore and titanium, dioxide remain at current levels.

The Group is targeting the Chinese market for a significant proportion of its future sales. A decline in Chinese demand, and/or an increase in Chinese domestic production or other competition, could adversely affect the Group's performance and prospects.

The Group's Mineral Licences may be Challenged, Which may Prevent or Severely Curtail the Group's Use of the Affected Mineral Deposits
The Group's mineral rights may be challenged or impugned, and insurance for these rights may not be available, or the Group may elect not to be so insured because of high premium costs. The Group does not carry title insurance. Each sovereign state is the sole authority able to grant mineral exploration and/or exploitation rights, and the Group's ability to maintain extraction rights on some of the Group's properties is dependent, inter alia, on the Russian Government's policy and rules for use of subsoil. Title to the land plots on which the Group has subsoil exploration and extraction rights may be affected by, among other things, undetected defects. In addition, a variety of factors beyond the Group's control may preclude the Group from operating its mineral rights as permitted or not allow the Group to enforce its mineral rights with respect to any of its deposits despite having the right to explore and develop them.

The licensing regime in Russia for the exploration, extraction and production of minerals is governed primarily by the Subsoil Law and regulations promulgated thereunder. The Group's licences provide that they may be revoked if the Group fails to comply with any of the licence requirements, such as minimum work commitments, if the Group does not make timely payments of levies and taxes for the use of the subsoil, if the Group systematically fails to provide information, if the immediate licence holders go bankrupt or if the Group fails to fulfil any capital expenditure or production obligations or both.

There have been press reports that the Russian Government is considering proposals involving the replacement of the current subsoil licensing system with a new system based on civil law regulated agreements between subsoil users and the state. It is not yet clear whether these proposals will be implemented and what effect this would have on the Group's operations. There is a risk that the implementation of these or any other proposals which will change the Russian subsoil licensing system may have an adverse effect on the Group's business.

The Group's Exploration, Development and Production Licences may be Suspended or Revoked Prior to their Expiration
Generally, compliance with various government regulations requires the Group to obtain permits issued by Russian governmental agencies. Some permits require periodic renewal or review of their conditions. The Group cannot predict whether the Group will be able to renew these permits or whether material changes in permit conditions will be imposed. Non-renewal of a permit may cause the Group to discontinue the operations requiring the permit, and the imposition of additional conditions on a permit may cause the Group to incur additional compliance costs, either of which could have a material adverse affect on the Group's financial condition and results of operations. Additionally, the Group may not be able to, or may voluntarily decide not to, comply, or may not have complied in all respects, with the licence requirements for some or all of its licences. If the Group fails to fulfil the specific terms of any of its licences or if the Group operates in the licence areas in a manner that violates Russian law, regulators may impose fines on the Group or suspend or revoke its licences, any of which could have a material adverse effect on its operations.

Reserves and Resources may be Subject to Restatement
The resource and reserve estimates contained on page 25 are estimates of the resources and reserves in the ground on the Group's existing licensed territories. The Group's ore resources and reserves are estimates based upon many factors, including:
- the results of exploratory drilling and an ongoing sampling of the ore bodies;
- past experience with mining properties; and
- the experience of the person making the reserve estimates.

Because the Group's ore resource and reserve estimates are calculated based on current estimates of production costs and product prices, they should not be interpreted as assurances of the economic life of the Group's deposits or the profitability of the Group's future operations. Resource and reserve estimates may require revisions based on the definitive exploration figures and actual production experience. Furthermore, a sustained decline in relevant market prices could render ore resources and reserves containing lower grades and/or mineralisation uneconomic to recover and ultimately require a restatement of reserves and resources.

Any failure of the reserves and resources to meet the Group's recovery expectations may have a materially adverse effect on the Group's business, financial condition and results of operations. The mineral expert's report on the mineral assets of the Group is a review based on data provided by the Group, much of which originated from Soviet research undertaken in the 1950s and 1960s. The data and its interpretation could be inaccurate resulting in higher levels of required initial investment.

Payment and other Obligations
Under the exploration licences and other contractual agreements to which the Group companies are or may in the future become parties, such companies are or may become subject to payment and other obligations. If such obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by such companies.

From time to time some of the Russian companies in the Group may have negative net assets (as defined under Russian accounting standards)
There are certain requirements under both the Federal law 'On Limited Liability Companies' and the Federal Law 'On Joint Stock Companies' that require companies to have net assets that are more than its charter capital. In common with a number of other groups in the Russian mining and exploration sector, a number of the Group's subsidiaries may have negative net assets, especially those in the early stages of exploration and which are prior to the

development, mining and/or production stage and those subsidiaries may, or may not, voluntarily decide not to rectify the situation.

If a Group subsidiary has negative net assets, there is a risk that Russian tax authorities and other interested parties may bring a claim to liquidate such a company, but there are a number of examples where Russian courts have not upheld such claims, on the grounds that the relevant company has paid its debts as they fell due, and/or has subsequently become profitable and/or has received a capital contribution to render that company negative asset positive (under Russian law). However, there is no guarantee that Russian Courts will continue to decide in this way, in which event one or more of the Group's companies could be the subject of a court order to be liquidated which would, among other matters, result in the loss of any mineral licence held by such company and result in adverse consequences for the rest of the Group. Even if the Group does take any necessary steps available to it to remedy this situation to the extent permissible under Russian Law, there can be no certainty that the Russian tax authorities will not seek to bring a claim in any event.

An additional risk exists in respect of any of the Group's joint venture participations, or any other investment of the Group which is less than a 100% subsidiary, which have negative net assets, since there can be no assurance that the Group's partner(s) or the other shareholder(s) in such joint ventures will take the same steps as the Group to remedy a deficiency in such joint venture entity's negative net assets in which case their share might have to be funded by the Group.

Currency Risk
The Company's functional currency is GB Pounds and it presents its accounts in US Dollars ('US$'). The majority of the Company's subsidiaries have a US$ functional currency but a large part of the Group's expenses is denominated in RUR which has been depreciating against the US Dollar for the last 6 months. The Group also has expenses and income denominated in other currencies, including those of the jurisdictions in which it operates. The Group's financial condition and results of operations could be adversely affected by changes in the exchange rates between currencies in which it operates.

The expenditure relating to the planned titanium sponge plant in China is expected to be met in part in Chinese yuan. Adverse movements in the US$/RMB exchange rate could impact the Group's profitability.

Counterparty Risk
The Group has US$257 million of cash and cash equivalents, the majority of which is deposited with major UK financial institutions with credit ratings of Ba1 or above. For operational reasons, the Group holds deposits with banks in Russia, one of which, a related party, has no official credit rating. See note 38 to the Consolidated Financial Statements for further details.

Environmental Regulations
The Group's operations are subject to the extensive environmental risks inherent in the mining and processing industry.

Although the Directors believe that the subsidiaries are in compliance in all material respects with any applicable environmental laws and regulations and hold all necessary approvals, licences and permits under those laws and regulations, there are certain risks inherent in their activities and those which the Group will undertake in the future, such as risks of accidental spills, leakages or other unforeseen circumstances, that could subject the Group to extensive liability. In addition, the Group is subject to checks, including spot checks, by various regulators including Rosprirodnazor, the environmental regulator in Russia.

Environmental legislation and permitting requirements are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance. However, the Group is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Group's cost of doing business or affect its operations in any area.

During the conduct of operations the Group is subject to regular inspections and reporting requirements for a range of issues relating to environmental pollution, and must comply with maximum acceptable concentrations, determined by state authorities, for air quality, water quality, soils and sediments. Any issues identified in such inspections or reporting processes and/or any breach of these requirements could have adverse consequences for the Group.

Access rights to mining tenements, land rights and third party rights
There may be cases where the Group requires additional rights to access or to exploit future mining projects.

In accordance with the Russian legislation and terms commonly included in licence agreements, a licence holder is obliged to obtain rights to the part of licensed area where certain geological works are carried out. This requires the licence holder obtaining lease agreements and mine allotment acts in respect of those areas to ensure it has all of the required land rights. The lease agreements must also be registered with the state to be enforceable (together, "Land Rights"). If the Land Rights are not obtained fines can be imposed on licence holders.

Obtaining the required Land Rights can be a long, drawn out and bureaucratic process for licence holders for reasons beyond their control. The Company and its subsidiaries may not always have the required Land Rights at the time of commencing their mining operations or for periods of time where agreements expire in relation to Land Rights.

Permitting
Both ahead of the commencement of operations by Aricom, including at Kuranakh where certain permits remain to be obtained, and during the conduct of operations, a range of permits are required to be obtained from different authorities and the OVOS must be approved by state environmental experts. Additionally certain activity must be discussed in advance with local communities and other interested persons.

Any failure to obtain, or delay in obtaining, any permits or approvals could adversely affect the Group's investment plans and/or operations, which could in turn adversely affect the Group.

Operational Considerations
The Group's operational targets are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Company.

The location of the Kuranakh, K&S, Garinskoye and Bolshoi Seym deposits means that climatic conditions have an impact on operations and, in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is, therefore, possible that exploration and extraction activity levels might fluctuate as a result of meteorological factors.

Directors' Report continued

Unscheduled interruptions in the Company's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

Lack of Infrastructure may Adversely Affect the Group's Ability to Develop its Resources
The Group's current and proposed reserves and resources are situated in areas lacking infrastructure required to develop and operate the Group's reserves and resources. The Group must invest heavily in the construction of the required mining and auxiliary infrastructure (such as roads, loading terminals, railways connecting to the BAM and/or Trans-Siberian railways and staff living quarters). Construction and operation of this infrastructure will require substantial capital expenditure by the Group and no assurance can be given that the market conditions will continue to make such investments viable.

Kuranakh and Bolshoi Seym are located in close proximity to the BAM railway, which is operated by a state owned company, OJSC Russian Railways. State-owned infrastructure in Russia largely dates back to Soviet times and much has not been adequately funded and maintained over the last 15-20 years. Particularly affected are the rail and road networks, building stocks and power generation and transmission. Currently, the Russian Government sets rail tariffs and may further increase these tariffs as it has done in the past. The Group could be adversely affected by insufficient capacity on the BAM railway.

Although the construction of a cross-border rail bridge in close proximity to K&S may be beneficial to the Group's operations, there is no certainty that the necessary funding will be forthcoming or such a bridge will be constructed.

Labour
Certain of the Group's operations are carried out under potentially hazardous conditions. Whilst the Group intends to continue to operate in accordance with relevant health and safety regulations and requirements, the Group remains susceptible to the possibility that liabilities might arise as a result of accidents or other workforce-related misfortunes, some of which may be beyond the Group's control.

The Group is undertaking a substantial recruitment programme to staff its increasing operations. If the Group is unable to recruit the required personnel with the required skills, this could adversely affect the Group's investment plans and/or operations, which could in turn adversely affect the Group. Significant increases in labour costs could adversely affect the Group.

Uninsured Risks
The Group, as a participant in exploration and mining programmes, may become subject to liability for hazards that cannot be insured against, which could exceed policy limits or against which it may elect not to be so insured because of high premium costs. The Group may incur a liability to third parties in excess of any insurance cover arising from pollution or other damage or injury.

The Group does not have full coverage for all of its plant and facilities, for business interruption, for third-party liability in respect of property, and for environmental damage arising from accidents on its property or relating to its operations. Until the Group decides to obtain full insurance coverage, there is a risk that losses and liabilities arising from such events could significantly increase its costs and have a material adverse effect on its business, results of operations and financial condition.

Project Development Risks
There can be no assurance that the Company will be able to manage effectively the expansion of its operations or that the Group's current personnel, systems, procedures and controls will be adequate to support the Group's operations. Any failure of management to manage effectively the Group's growth and development could have a material adverse effect on the Group's business, financial condition and results of operations.

There is no certainty that all or any of the elements of the Group's current strategy will develop as anticipated.

Dependence on Key Personnel
The Group's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. There is no assurance that the Group will be able to attract and retain such key personnel. The success of the Group is, and will continue to be to a significant extent, dependent on the expertise and experience of the Directors and senior management and the loss of one or more could have a materially adverse effect on the Group.

Litigation
Legal proceedings may arise from time to time in the course of the Company's business. The Directors cannot prevent litigation being brought against the Company or any of its subsidiaries in future from time to time.

Risks Relating to the Jurisdictions in Which the Group Operates
Economic, Political, Judicial, Administrative, Taxation or Other Regulatory Factors
The Group may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the areas in which the Group will operate and holds its major assets, as well as other unforeseen matters. The jurisdictions in which the Company operates may in some cases have less established judicial systems, a more volatile political environment and/or more challenging trading conditions than in some other parts of the world. Unlawful, selective or arbitrary government action could have a material adverse effect on the Group's business and prospects.

The Group is subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to income tax, mineral extraction taxes, royalty tax, sales tax, property tax, social taxes and road use tax. Laws related to these taxes, such as the Russian Tax Code, have been in force for a short period relative to tax laws in more developed market economies; therefore, the implementation of these tax laws by different tax authorities and courts is often unclear and/or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. The Group seeks legal and tax advice and seeks to comply with all the relevant tax laws and regulations to the best of its abilities. However, no assurances can be made that tax authorities and/or courts will apply various tax laws and regulations in a way consistent with that taken by the Group. If the tax authorities and/or courts adopt a different interpretation of various tax laws and regulations, the Group may have to pay significantly higher taxes, and impose additional burdens and costs on the Group's operations, including management resources, which could have a material adverse effect on the Group's business.

The Group's assets are located in Russia, a country which is still moving from a command to market-driven economy. While this process of change is establishing in Russia a more western-style business environment, there are still substantial differences between it and more developed economies and countries, including a volatile financial system, political and/or economic instability and/or lack of transparency, and both these differences and the ongoing processes, could adversely affect the Group and its operations. Ethnic, religious, historical and other divisions have, on occasion, given rise to tensions, armed conflict and terrorist activity.

Any spread of violence or terrorism, or political measures taken to counter them, could hinder the operation and the expansion of the Group's business. Various recent developments in Russia including the tightening of state control over the economy have caused some concern in relation to the investment climate in the country and no assurances can be given that various steps taken or being debated in the Russian Government will not affect investment into Russia or the public perception thereof.

China
The Company will be exposed to the Chinese economy and to the state of diplomatic relations between Russia and China. Deterioration in the Chinese economy and/or in the trading environment could adversely affect the trading position of the Company. Similarly the imposition of export controls in Russia or import controls in China could adversely affect the Company's operations.

Legal and Regulatory Environment
There is no guarantee that the Group will be successful in all attempts to obtain mining licences. There is no guarantee of the terms of any future mining licence. The exploration and extraction activities of the Group are subject to various laws governing prospecting, development, production taxes, labour standards and occupational health, site safety, toxic substances and other matters. Although the Directors believe that the Group's exploration activities are currently carried out in accordance with all applicable rules and regulations relevant to the current stage of development and that the Group holds all necessary approvals, licences and permits under those laws and regulations for its current activities, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing operations and activities of exploration for and extraction of mineral resources, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Group.

In some cases, existing or future licences cover, or will cover, only the extraction of specified minerals. In such cases, the exploitation of other minerals may require additional licences to be obtained, and there can be no certainty that these will be forthcoming.

Risks Relating to the Aricom Securities
Liquidity
Although the Aricom Securities are listed on the Official List, this should not be taken as implying that there will be a liquid market in the Aricom Securities. An investment in the Aricom securities may, therefore, in certain circumstances be difficult to realise.

The Company can give no assurance that an active trading market for the Warrants will be sustained. Should the Warrant holders decide to exercise their Warrants, this would result in a dilution of the interests of the Shareholders at the time of the issue of any ordinary shares pursuant to such exercise.

Investment Risk
Prospective investors should be aware that the value of an investment in the Company may go down as well as up. In addition, there can be no certainty that the market price of an investment in the Company will fully reflect its underlying value. The price at which investors may dispose of their Aricom Securities may be influenced by a number of factors, some of which may be related to the Company and some not. Investors may realise less than the original amount invested.

Joint Venture Arrangements may not be Finalised
The Group has a minority interest in the Bolshoi Seym deposit, and the Bolshoi Seym joint venture arrangements are yet to be finalised. The Group has a 49% interest in Uralmining, a Russian company holding the licence to develop the Bolshoi Seym deposit. The Group is in the process of negotiating a joint venture agreement with the proposed other participant in Uralmining, KMT, a company related to the Interros investment group, a large Russian private investment company. If implemented, the joint venture agreement will provide certain minority protections for Aricom. If the joint venture is not entered into, the Company will remain as a minority shareholder in Uralmining, without any additional contractual rights in respect of the Bolshoi Seym deposit.

The Titanium Sponge Project may not Proceed
In August 2008, Chinalco, the largest nonferrous metal company in China and owner of China's largest titanium metal processing plant, signed an agreement with Aricom for the design and development of a titanium sponge production plant in China. In order to progress this project, additional equity contributions are required from both Aricom and Chinalco, and a project finance facility is also required. If the equity contributions or project finance are not made available the project will not proceed.

If, at some stage, the capital expenditure requirements, operating costs or titanium sponge price levels are such that the project appears unprofitable, the project may not proceed.

Possible Merger with Peter Hambro Mining plc
Conditions to the Offer may not be Satisfied or Approved
The offer once made to Aricom shareholders will contain certain conditions and those conditions may not be satisfied. At the time, PHM may decide in its absolute discretion to waive or amend those conditions. Alternatively the offer may be terminated or may lapse. The offer may be made by PHM but not approved as required by the Court, if implemented by way of a scheme (the current intention) or by the required percentage of shareholders of Aricom or PHM or if FAS approval is not received. If this occurs the conditions may not be satisfied and the offer to Aricom shareholders may be terminated or may lapse.

Change of Control
There is a risk that certain contracts of the Group may contain change of control provisions and in connection with certain of those contracts, there is a risk that the proposed merger could constitute a change of control. There is a risk that a disgruntled party or creditor may bring an action claiming there has been a change of control. There is a risk that contracts where change of control provisions will be invoked that the Group cannot deal with those adverse effects before any proposed merger. These effects may have adverse consequences for the enlarged entity.

General
The risks noted above are not intended to be presented in any assumed order of priority.

Supplier Payment Policy
The Group does not follow any specific external code or standard on payment terms. Instead, responsibility for determining payment terms is delegated to the individual businesses within the Group which take into account local market and industry practice. As a Group, the policy for determining payment terms is either to agree terms of payment at the start of a binding contract or to ensure that the supplier is aware of the individual businesses' usual payment terms. Payment is made in accordance with contractual and other legal obligations, and reflects local market practices. The Company is a holding company and, as such, has few suppliers.

Trade creditor days of the Group at 31 December 2008 were 14 days (2007: 23 days).

Charitable and Political Contributions
The Group did not make any charitable or political donations in 2008 (2007: nil).

Directors' Report continued

Directors
The Directors who held office at any time during the year under review are set out below:

Brian Egan	Chief Financial Officer
Sir Malcolm Field	Senior Non-Executive Director
Jay Hambro	Chief Executive Officer
Peter Hambro	Non-Executive Deputy Chairman
Sir Roderic Lyne	Non-Executive Director
Yuri Makarov	Operations Director
Dr Pavel Maslovskiy	Chairman
Martin Smith	Technical Director

Tony Redman was appointed as a Non-Executive Director with effect from 1 January 2009.

Directors' Interests
The beneficial interests of the Directors and connected parties in the share capital of the Company as at 1 January 2008, 31 December 2008 were as follows:

	1 January 2008	**31 December 2008**
Ordinary shares of £0.001 each		
Sir Malcolm Field	1,205,000	**1,205,000**
Brian Egan	–	**107,622**
Peter Hambro	92,601,729	**87,601,729**
Jay Hambro	–	**110,000**
Sir Roderic Lyne	26,000	**26,000**
Yuri Makarov	–	**110,000**
Dr Pavel Maslovskiy	92,779,094	**87,779,094**
Warrants		
Sir Malcolm Field	35,000	**35,000**
Jay Hambro	135,000	**135,000**

No other Directors had an interest in the shares of the Company. As at 31 December 2008, the Directors held no interests in any other Group companies. There have been no changes in the above holdings since 31 December 2008.

The current share options held by Directors and the movement during the year is set out below:

	Number of shares under option as at 1 January 2008	Granted during the year	Exercised during the year	Number of shares under option as at 31 December 2008
Executive Directors				
Jay Hambro	2,500,000	–	–	2,500,000
Yuri Makarov	800,000	–	–	800,000
Martin Smith	400,000	–	–	400,000
Former Director				
Peter Howes	400,000	–	(400,000)	–

Details of allocations made to Directors under the Companies Long Term Incentive Plan are given below:

	Date of award	Number[1]	Price	Term
Brian Egan	October 2007	2,000,000	£0.62	3 years
	October 2008	2,000,000	£0.20	3 years
Jay Hambro	October 2007	2,000,000	£0.62	3 years
	October 2008	2,000,000	£0.20	3 years
Yuri Makarov	October 2007	2,000,000	£0.62	3 years
	October 2008	2,000,000	£0.20	3 years
Martin Smith	October 2007	2,000,000	£0.62	3 years
	October 2008	2,000,000	£0.20	3 years

1 The above allocations refer to LTIP units and not refer to the numbers of shares.

The above are maximum allocations, subject to the attainment of objectives. Further details of the Company's Long Term Incentive Plan are set out in the Directors' Remuneration Report on pages 48 to 52.

Appointment of Directors
With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act 2006 and related legislation.

Directors may be appointed by the Company by ordinary resolution or by the Board, on recommendation of the Nomination Committee. A Director appointed by the Board holds office only until the next following annual general meeting and is then eligible for election by the shareholders but is not taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting.

The Company may, in accordance with and subject to the provisions of the Companies Act 2006 by ordinary resolution of which special notice has been given remove any Director before the expiration of this term of office.

Directors' Indemnities
The Company has made no qualifying third party indemnity provisions nor any qualifying pension scheme indemnity provisions for the benefit of its Directors or the directors of its associated companies during the year ended 31 December 2008 or which remain in force at the date of this report other than Directors' and Officers' Insurance.

Powers of Directors
Subject to the Company's Memorandum of Association, the Articles of Association, the prevailing legislation and any directions given by special resolution, the business and affairs of the Company will be managed by the Directors who may exercise all such powers of the Company. The powers of Directors are further described in the Schedule of Matters reserved for the Board, copies of which are available on request, and in the Corporate Governance statement on pages 42 to 45.

The Company has authority to issue shares under its Articles of Association and it is intended that an ordinary resolution will be proposed at this year's Annual General Meeting to authorise Directors to allot ordinary shares up to a maximum aggregate nominal amount of £415,064. This represents the aggregate of one third of the nominal value of the ordinary shares in issue as at the date of this report and of the ordinary shares subject to existing options. It is intended that a further resolution is to be proposed which will disapply the statutory pre-emption rights for issues of ordinary shares for certain purposes.

Further details of the above will be contained in the Notice of Annual General Meeting.

Repurchase of Shares
The Company was granted authority to repurchase up to 5% of its issued share capital at the Annual General Meeting held on 18 April 2008. This authority will expire at the conclusion of this year's Annual General Meeting unless renewed at that meeting. The Company has not made use of this authority during the year under review. It is intended that the Board will seek shareholder approval at this year's Annual General Meeting for the authority to repurchase up to 5% of the issued share capital.

Further details of the above will be contained in the Notice of Annual General Meeting.

Amendment of Articles of Association
The Company's Articles of Association may be amended by special resolution of Shareholders.

Capital Structure
Details of the Company's authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 30 to the accounts. The Company has one class of ordinary share which carries no rights to fixed income ('Shares').

Rights and obligations attaching to Shares
The rights attaching to the Shares are governed by the Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding.

Subject to any rights or restrictions attached to any Shares, on a show of hands every shareholder present in person or by proxy (or being a corporation present by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share held by the shareholder.

Restrictions on Voting
No shareholder shall be entitled to vote at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. Currently, all issued shares are fully paid. In addition, no member shall be entitled to vote if he failed to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

Deadlines for Voting Rights
Votes are exercisable at the general meeting of the Company in respect of which the business being voted upon is being heard. The Notice of the Annual General Meeting, will specify the deadline for appointing a proxy or proxies to vote in relation to resolutions to be passed at this year's Annual General Meeting.

Transfer of Shares
The transfer of shares, is governed by the general provisions of the Articles of Association and prevailing legislation.

There are no restrictions on the transfer of the Shares other than as set out in the Articles of Association and; (i) certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and (ii) pursuant to the Listing Rules of the Financial Services Authority whereby certain Directors, officers and employees of the Company require the approval of the Company to deal in the Shares.

Shareholder Agreements
The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights or any arrangements by which, with the Company's co-operation, financial rights carried by securities are held by a person other than the holder of the securities. No person has any special rights of control over the Company's share capital.

Shares Held by the Employee Benefit Trust
Shares held by the Aricom plc Employee Benefit Trust abstain from voting.

Directors' Report continued

Notifiable Share Interests
At the date of this report the Company had been notified of the following direct and indirect interests in excess of 3% of its issued share capital:

Shareholder	Number of shares held	%
Lansdowne Partners Limited	109,770,746	9.28%
Malavasia Enterprises Inc.	102,981,366	8.71%
The Capital Group of Companies	100,833,005	8.52%
Pavel Maslovskiy and associates	87,779,094	7.42%
Peter Hambro and associates	87,601,729	7.41%
JPMorgan Asset Management	62,046,534	5.25%
Morstan Nominees Ltd (Morgan Stanley Group)	54,716,335	4.63%
Legal & General	52,012,101	4.40%
Credit Suisse Securities (Europe) Ltd	42,934,621	3.63%

The Company has not received notification that any other person holds 3% or more of the Company's issued share capital.

Employees
The Group maintains a policy of providing employees with information about the Company and regular meetings are held between management and employees to allow exchanges of information and ideas.

The Group is committed to provide equal opportunity for individuals in all aspects of employment. The Group gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

Company Branches outside the UK
The Company has maintained a branch in China since August 2008.

Change of Control
A change of control of the Company following a takeover bid may cause a number of agreements to which the Company, or any of its trading subsidiaries, is party, such as commercial trading contracts, joint venture agreements, banking arrangements to take effect, alter or terminate. In the context of the potential impact on the Group none of these agreements is considered to be significant.

Conflicts of Interest
The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts of interest of directors where the Articles of Association contain a provision to that effect. Shareholders approved amendments to the Company's Articles of Association at the Annual General meeting held on 15 April 2008 which included provisions giving the Board the authority to authorise matters which may result in the Directors breaching their duty to avoid a conflict of interest. Directors of the Company who have an interest in matters under discussion at Board meetings are required to declare this interest and to abstain from voting on the relevant matters. Any related party transactions are approved by a committee of the Board consisting solely of independent Directors. In addition, the Directors will be able to impose limits or conditions when giving any authorisation, if they think this is appropriate.

Director/Employee Agreements for compensation
In circumstances where a Director loses office as a result of a change of control of the Company following a takeover bid, certain Directors are entitled to six months' pay as compensation for loss of office.

Health, Safety and the Environment
The Board has established the Health, Safety and Environmental Committee which is responsible for Aricom's Staff, the communities within which the Company operates and the environment impact of the Group.

Further details on the Group's activities in this area are given in the Corporate Governance Report on pages 42 to 45.

Auditors
In the case of each of the persons who are Directors of the Company at the date when this report was approved:
- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to continue in office as auditors and it is intended that a resolution to re-appoint them will be proposed at this year's Annual General Meeting.

Approval
This report was approved by the Board of Directors of Aricom plc and signed on its behalf by:

Heather Williams FCIS
Company Secretary
25 February 2009

Statement of Directors' Responsibilities

Directors' Responsibilities
The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements. Company law requires the Directors to prepare such financial statements in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. The financial statements for the Group have been prepared in accordance with IFRSs as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which complies with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 104, confirm that, to the best of their knowledge:
- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- The Directors' Report, taken together with the Chairman's Statement and Chief Executive Officer's Review, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

After making enquiries, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Approval
This report was approved by the Board of Directors of Aricom plc and signed on its behalf by:

Dr Pavel Maslovskiy
Chairman
25 February 2009

Independent Auditors Report to the Members of Aricom plc

We have audited the Group financial statements of Aricom plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 41. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Aricom plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Review, CEO's Review and Financial Review that is cross referred from the Enhanced Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:
- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London
25 February 2009

Consolidated Income Statement
for the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Revenue	6	**9,674**	4,938
Cost of sales		**(6,009)**	(3,153)
Impairment charge	8	**(386,450)**	–
Gross (loss)/profit		**(382,785)**	1,785
Distribution costs		**(258)**	–
Administrative expenses:			
Listing costs		**–**	(3,951)
Share based payments	36	**(482)**	(1,086)
Other administrative costs	9	**(30,407)**	(19,900)
Other operating income		**200**	475
Share of associate's profit/(loss)	19	**850**	(59)
Share of joint venture's loss	20	**(444)**	–
Operating loss		**(413,326)**	(22,736)
Investment revenues	12	**15,532**	21,453
Finance costs	13	**(23,224)**	(602)
Loss before tax		**(421,018)**	(1,885)
Tax (charge)/benefit	14	**(5,582)**	1,996
(Loss)/profit for the year		**(426,600)**	111
Attributable to:			
Equity holders of the parent		**(427,377)**	1,040
Minority interest		**777**	(929)
		(426,600)	111
(Loss)/earnings per share			
Basic	16	**US$(0.38)**	US$0.00
Diluted	16	**US$(0.38)**	US$0.00

Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2008

	2008 US$'000	2007 US$'000
Exchange differences on translation of foreign operations	**(15,138)**	2,168
Equity element of deferred tax arising on share options	**–**	199
Net (expense)/income recognised directly in equity	**(15,138)**	2,367
(Loss)/profit for the year	**(426,600)**	111
Total recognised income and expense for the year	**(441,738)**	2,478
Attributable to:		
Equity holders of the parent	**(441,722)**	3,208
Minority interests	**(16)**	(730)
	(441,738)	2,478

Consolidated Balance Sheet
as at 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Non-current assets			
Goodwill		–	58
Other intangible assets	17	**613**	427
Property, plant and equipment	18	**440,157**	561,438
Investment in associates	19	**3,704**	2,854
Interest in joint ventures	20	**20,387**	–
Deferred tax asset	21	–	4,879
Other non-current assets	22	**3,328**	112
		468,189	569,768
Current assets			
Inventories	23	**8,481**	2,015
Trade and other receivables	24	**44,190**	29,077
Loan receivable from a related party	24	–	65,111
Short-term investments	25	–	91,791
Cash and cash equivalents	26	**257,822**	406,687
		310,493	594,681
Total assets		**778,682**	1,164,449
Current liabilities			
Trade and other payables	27	**(14,993)**	(12,728)
Current tax liability		**(1,182)**	(446)
		(16,175)	(13,174)
Net current assets		**294,318**	581,507
Non-current liabilities			
Deferred tax liability	21	**(2,422)**	(5,014)
Other non-current liabilities	28	**(111)**	(1,571)
Long-term provisions	29	**(2,108)**	(2,294)
		(4,641)	(8,879)
Total liabilities		**(20,816)**	(22,053)
Net assets		**757,866**	1,142,396
Equity			
Share capital	30,32	**2,265**	2,147
Share premium account	32	**1,183,520**	1,130,638
Own shares	31,32	**(24,801)**	(20,256)
Share option reserve	32	**10,955**	10,378
Translation reserve	32	**(12,376)**	1,969
Other reserves	32	**29,600**	9,900
Retained loss	32	**(435,623)**	(8,307)
Equity attributable to equity holders of the parent		**753,540**	1,126,469
Minority interest	32	**4,326**	15,927
Total equity	32	**757,866**	1,142,396

The financial statements were approved by the Board of Directors and authorised for issue on 25 February 2009. They were signed on its behalf by:

G J Hambro
Director
25 February 2009

B Egan
Director
25 February 2009

Consolidated Cash Flow Statement
For the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Net cash used in operating activities	34	**(51,948)**	(12,866)
Investing activities			
Interest received		**16,487**	16,505
Investment management fees paid		**(186)**	–
Income received on derivative financial instrument		**–**	637
Proceeds on disposal of short-term investments		**113,328**	10,770
Proceeds on disposal of property, plant and equipment		**98**	6
Purchases of property, plant and equipment		**(108,493)**	(76,656)
Purchases of other non-current assets		**(205)**	–
Acquisition of licences, net of cash acquired	33	**(44,976)**	–
Acquisition of minority interest		**–**	(11,237)
Acquisitions of subsidiaries, net of cash acquired		**–**	(6,348)
Cash acquired upon acquisition of interest in Lapwing Limited		**–**	427
Purchase of short-term investments		**(22,855)**	(99,346)
Purchase of option in Lapwing Limited		**–**	(19,700)
Loan to Lapwing Limited		**–**	(27,600)
Loan advanced to Olis Constructions Limited		**–**	(65,000)
Repayment of the remainder of a loan issued to Olis after completion of the acquisition of their 29.26% interest in Lapwing (excluding interest)		**1,950**	–
Loan advanced to associate		**(2,953)**	(4,217)
Loans issued to employees		**(640)**	–
Other loans issued		**(1,011)**	–
Joint venture share capital contribution	20	**(20,812)**	–
Repayment of loan issued		**245**	–
Net cash used in investing activities		**(70,023)**	(281,759)
Financing activities			
Debt arrangement costs		**–**	(557)
Proceeds on issue of shares		**120**	639,462
Listing costs		**–**	(3,951)
Share issue costs		**(47)**	(24,916)
Net cash from financing activities		**73**	610,038
Net (decrease)/increase in cash and cash equivalents for the year		**(121,898)**	315,413
Cash and cash equivalents at beginning of year		**406,687**	89,668
Effect of foreign exchange rate changes		**(26,967)**	1,606
Cash and cash equivalents at end of year		**257,822**	406,687

Notes to the Consolidated Financial Statements 2008

1 General Information
Aricom plc is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is given on page 104. The nature of the Group's operations and its principal activities are set out in the Directors' report on page 53 to 60.

These financial statements are presented in US dollars because that is the currency of the primary economic environment in which the Group operates. The functional currency of the parent entity is GB Pound. Entities with functional currencies other than US Dollars are included in accordance with the policies set out in note 3.

2 Adoption of New and Revised Standards and Interpretations
In the current year the Group has adopted IFRIC 11 IFRS2 *Group and Treasury Share Transactions* which is effective for annual reporting periods beginning on or after 1 March 2007. There was no impact of the adoption of IFRIC 11.

Standards and amendments, applicable to the Group, which are effective for reporting periods beginning after the date of these financial statements:

International Accounting Standards (IAS/IFRS)	Effective date
IAS 1 – Amendment – Presentation of financial statements: a revised presentation	1 January 2009
IAS 23 – Amendment – Borrowing costs	1 January 2009
IFRS 2 – Amendment – Share based payments: vesting conditions and cancellations	1 January 2009
IFRS 8 – Operating segments	1 January 2009

The Directors are in the process of assessing the impact of adoption of these Standards and Interpretations in future periods on the financial statements of the Group.

Standards and amendments, applicable to the Group, which are effective for reporting periods beginning after the date of these financial statements and that have not been endorsed by the EU.

IAS 27 – Amendment – Consolidated and separate financial statements	1 July 2009
IFRS 3 – Revised – Business combinations	1 July 2009
IFRS 1 & IAS 27 – Amendment – Cost of an investment in a subsidiary, jointly controlled entity or associate	1 January 2009

The Directors are in the process of assessing the impact of adoption of these Standards and Interpretations in future periods on the financial statements of the Group.

3 Significant Accounting Policies
Basis of Accounting
The financial statements have been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below.

As explained in the Financial Review on page 41, management assessed the Group's ability to continue as going concern and these financial statements have been prepared on the going concern basis.

Basis of Consolidation
The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) as at the balance sheet date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination or acquisition of ore deposits by way of a corporate vehicle, and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business Combinations and Goodwill
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Notes to the Consolidated Financial Statements 2008 continued

3 Significant Accounting Policies continued
If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Purchases of a Minority Interest in a Controlled Entity
The cost of the acquisition is measured at the aggregate of the fair values of assets given, at the date of exchange, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for shares purchased in a controlled entity, plus any costs directly attributable to the transaction. The identifiable assets, liabilities and contingent liabilities of a controlled entity are recognised at fair value at the date of the exchange transaction, but only to the extent of the proportion of equity acquired.

Goodwill arising on the purchase of shares in a controlled entity is recognised as an asset and initially measured at cost, being the excess of the additional cost of shares over the increase of Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

If the increase in Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the shares purchase, the excess is recognised immediately in profit or loss.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Acquisition of Assets
Frequently, the acquisition of mining licences are effected through a non-operating corporate structure. As these structures do not represent a business, it is considered that the transactions do not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are recognised at cost.

Where the Group has full control but does not own 100% of the assets, then a minority interest is recognised, the assets continue to be carried at cost and changes in those values are recognised in equity.

Other Intangible Assets
Other intangible assets represent licensed intellectual property purchased in relation to the processing of titanium sponge. These intangibles are measured at cost and are amortised on a straight line basis over their estimated useful life, which is a period of up to 10 years, but dependent upon the start-up date of the titanium sponge plant.

Investments in Associates
An associate is an entity over which the Group is in a position to exercise significant influence, but does not control or have joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale (see below). Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill within the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for the impairment.

Interests in Joint-ventures
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

3 Significant Accounting Policies continued

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting as described in 'Investment in associates' above.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of an associate as described in 'Investment in associates' above.

Where the Group transacts with its jointly controlled entities, profits and losses are accounted for as in 'Investment in associates' above.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Revenue from engineering contracts is recognised in accordance with the Group's accounting policy on engineering contracts, as set out below.

Engineering Contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to estimates of work performed to date.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Equipment and other assets may be leased to contractors under an operating lease, for use in the construction of mining properties. Amounts due from lessees under these operating leases are set off against the cost of construction in the period to which they relate.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as Lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see page 70).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign Currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US dollars, which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Consolidated Financial Statements 2008 continued

3 Significant Accounting Policies continued
Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the year.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations which have a functional currency other than US dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised within equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Retirement Benefit Costs
The Company does not operate a pension scheme. However, payments are made to defined contribution retirement benefit schemes for certain employees and these are charged as an expense as they fall due.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Exploration and Evaluation Expenditure
The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights, are capitalised as intangible assets.

Exploration and evaluation expenditure is capitalised within exploration and evaluation properties until such time that the activities have reached a stage which permits a reasonable assessment of the existence of commercially exploitable reserves when they are transferred to mining properties and leases. Capitalised exploration and evaluation expenditure is assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 *Exploration for and Evaluation of Mineral Reserves*. In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the year.

Property, Plant and Equipment
Mining Properties and Leases
The costs of mining properties and leases, which include the cost of acquiring and developing mining properties and mineral rights are classified as tangible assets from the time that a resource estimate is available and it is the Group's intention to exploit the value of the property through the development and production of the available resource.

3 Significant Accounting Policies continued
Pre-production expenditure is capitalised until the mining property is capable of commercial production. From that point, capitalised mining properties and lease costs are amortised on a unit of production basis over the total estimated remaining commercial reserves of each property or Group of properties.

Commercial reserves are proven and probable reserves. Changes in the commercial reserves affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

Mining properties and leases are reviewed for impairment annually and any impairment charge is taken to the income statement accordingly.

For open pit operations the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body.

Such costs when incurred prior to the commencement of production are deferred on the balance sheet, and charged to operating profit over the life of the mine.

When incurred after the commencement of commercial production such costs are deferred based on the ratio obtained by dividing the tonnage of the waste mined by the quantity of the ore mined ('stripping ratio'). Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the life-of-mine ratio for each mine. Such deferred costs are then amortised in subsequent periods to the extent that the period's stripping ratio falls below the life-of-mine ratio. The life-of-mine ratio is based on the mineable reserves of the mine.

The life-of-mine waste-to-ore ratio is a function of an individual mine's pit design and therefore changes to that design will generally result in changes to the ratio. Changes in other technical and economic parameters that impact reserves will also have an impact on the life-of-mine ratio even if they do not affect the mine's pit design. Changes to the life-of-mine ratio are accounted for prospectively.

Deferred stripping costs are included within non-current assets as 'Deferred stripping costs'.

Other Property, Plant and Equipment
Other tangible fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is provided on all such tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life or the life of the relevant licence, whichever is less, as follows:

	Average life in years
Buildings	50
Plant and machinery	7–20
Office equipment	3–10
Computer equipment	4–6

Until they are brought into use, fixed assets and equipment to be installed are included within assets under construction.

The helicopter is recorded at cost, net of accumulated depreciation calculated at rate based on the actual flight hours as a proportion of total recommended flight hours.

The cost of maintenance, repairs and replacement of minor items of tangible fixed assets are charged to the Income Statement as incurred. Renewals and asset improvements are capitalised. Upon sale or retirement of tangible fixed assets, the cost and related accumulated depreciation are eliminated from the financial statements. Any resulting gains or losses are included in the income statement.

Impairment of Tangible and Intangible Assets Excluding Goodwill
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Details of the assumptions used when assessing the impairment of the Group's tangible assets, and the effect of those assumptions, can be found in note 8 to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements 2008 continued

3 Significant Accounting Policies continued
Restoration, Rehabilitation and Environmental Costs
An obligation to incur site restoration and rehabilitation costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against profits over the life of the mine, through the depreciation of the asset and the unwinding of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included as financing costs.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work are added to, or deducted from, the cost of the related asset in the current period.

Inventories
Inventories and work in progress are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials and consumables is determined on the first-in-first-out (FIFO) basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial Instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial Assets
Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group does not hold any financial assets which meet the definition of a held-to-maturity investment or available-for-sale financial asset.

Financial Assets at Fair Value Through Profit or Loss
Financial assets are classified as financial assets at fair value through profit or loss ('FVTPL') where the Group acquires the financial asset principally for the purpose of selling in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking as well as all derivatives that are not designated as effective hedging instruments. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Effective Interest Method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Loans and Receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of Financial Assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade Receivables
Trade receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments
Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, including transaction costs.

3 Significant Accounting Policies continued
Other investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the year. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the year. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Financial Liabilities and Equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial Liabilities
Financial liabilities are classified as either financial liabilities at 'fair value through profit or loss' or other financial liabilities.

Financial Liabilities at FVTPL
Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been incurred principally for the purpose of disposal in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedge instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other Financial Liabilities
Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Trade Payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity Instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based Payments
The Group has applied the requirements of IFRS 2 *Share-based Payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled and cash-settled share-based payments to certain employees and under various contracts with third parties. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of a Black-Scholes model. The expected lives used in the models have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled, share based payments.

Employee Benefit Trust
The carrying value of shares held by the employee benefit trust are recorded as treasury shares, shown as a deduction to shareholders' equity.

Notes to the Consolidated Financial Statements 2008 continued

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty
In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Impairment of Assets
The Group reviews the carrying value of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets are impaired. In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit ('CGU'). The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs to sell and value in use.

Management necessarily applies its judgement in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

Management has concluded that K&S and Garinskoye are a single CGU for the purposes of impairment as it is expected that ore from the Garinskoye ore body will be processed through the K&S plant and there would be no market for the pre-concentrate.

Provision for Restoration, Rehabilitation and Environmental Costs
Costs arising from site restoration works, and the decommissioning of plant, discounted to their present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. The provision is based on estimates prepared by external consultants. Management uses its judgement and experience to provide for these costs. The ultimate costs of site restoration and decommissioning are uncertain, and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Assumptions Related to the Valuation of Share-based Payments
In order to value options granted, the Group has made judgements as to the volatility of its own ordinary shares, the probable life of the options granted and the time of exercise of those options. Aricom has also made a judgement as to which methodology to use in valuing the options in each case.

Estimation of Percentage Completion of Engineering Contracts at Giproruda
To estimate the percentage completion of Engineering Contracts and therefore determine the amount of contract revenue and associated costs to recognise requires that management makes an assessment of the stage of completion of the contract activity at the balance sheet date. The Directors consider that these estimates are made by suitably qualified project managers.

Tax Provisions
Assessing the outcome of uncertain tax positions requires judgments to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

Deferred Tax
Recognition of deferred tax assets requires management to assess the likelihood that future tax profits will be available which the deferred tax asset can be utilized to offset. This requires management to assess future profits of the business and the likelihood and timing of these amounts.

5 Foreign Currency Rates
The rates of exchange applicable to the year are as follows:

	2008		2007	
	Closing	**Average**	Closing	Average
Russian Rouble: GB Pounds	**42.62**	**45.86**	49.01	51.04
Russian Rouble: US Dollars	**29.38**	**24.85**	24.55	25.58
US Dollar: GB Pounds	**1.46**	**1.83**	1.98	1.98

The representation of figures in US dollars should not be construed as meaning that underlying amounts can or will be settled in dollars.

6 Revenue
An analysis of the Group's revenue is as follows:

	2008 US$'000	2007 US$'000
Revenue from operations		
Pre-concentrate sales	**501**	–
Investment revenues (see note 12)	**15,532**	21,453
Engineering contracts revenue	**9,173**	4,938
Rental income (see note 15)	**1,231**	452
Total revenue	**26,437**	26,843

7 Segmental Information
Business Segments
For management purposes, during the year, the Group was organised into three operating divisions – mine development, engineering services and corporate. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:
- Mine development – the development of the Group's mines in Russia;
- Engineering services – activities conducted by the Group's subsidiary, Giproruda. This entity was acquired during 2007 and was accounted for as an associate between 8 June 2007 and 12 July 2007, following which the Group received full voting rights and accounted for this investment as a subsidiary; and
- Corporate – the head office activities of the Group.

Segment information about these businesses is presented below.

2008	**Mine development US$'000**	**Engineering services US$'000**	**Corporate US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Revenue					
External sales	**501**	**9,173**	**–**	**–**	**9,674**
Intra-group sales	**–**	**2,221**	**–**	**(2,221)**	**–**
Total revenue	**501**	**11,394**	**–**	**(2,221)**	**9,674**
Impairment charge	**(386,450)**	**–**	**–**	**–**	**(386,450)**
Result					
Operating (loss)/profit	**(405,959)**	**3,287**	**(10,436)**	**(624)**	**(413,732)**
Share of joint venture's loss	**–**	**–**	**(444)**	**–**	**(444)**
Share of associate's profit	**850**	**–**	**–**	**–**	**850**
Segment result	**(405,109)**	**3,287**	**(10,880)**	**(624)**	**(413,326)**
Investment revenues					**15,532**
Finance costs					**(23,224)**
Loss before tax					**(421,018)**
Tax charge					**(5,582)**
Tax expense on joint venture's and associate's profit					**–**
Loss after tax					**(426,600)**

2007	Mine development US$'000	Engineering services US$'000	Corporate US$'000	Eliminations US$'000	Consolidated US$'000
Revenue					
External sales	–	4,938	–	–	4,938
Intra-group sales	–	360	–	(360)	–
Total revenue	–	5,298	–	(360)	4,938
Result					
Operating (loss)/profit	(9,775)	1,271	(13,969)	(204)	(22,677)
Share of associate's loss	(127)	100	–	–	(27)
Segment result					(22,704)
Investment revenues					21,453
Finance costs					(602)
Loss before tax					(1,853)
Tax credit					1,996
Tax expense on associate's profit					(32)
Profit after tax					111

All inter-segment transfers were made at prevailing market rates.

Notes to the Consolidated Financial Statements 2008 continued

7 Segmental Information continued
Other Information

2008	Mine development US$'000	Engineering services US$'000	Corporate US$'000	Consolidated US$'000
Capital additions	**103,657**	**175**	**4,296**	**108,128**
Acquisition of minority interest	**110,707**	**–**	**–**	**110,707**
Acquisition of licences	**53,931**	**–**	**–**	**53,931**
Depreciation and amortisation	**2,404**	**399**	**15**	**2,818**
Balance sheet				
Assets				
Segment assets	**485,463**	**17,550**	**9,144**	**512,157**
Investment in associate	**3,704**	**–**	**–**	**3,704**
Investment in joint venture	**–**	**–**	**20,387**	**20,387**
Unallocated assets	**–**	**–**	**–**	**242,434**
Consolidated total assets				**778,682**
Liabilities				
Segment liabilities	**(9,990)**	**(1,291)**	**(5,931)**	**(17,212)**
Unallocated liabilities	**–**	**–**	**–**	**(3,604)**
Consolidated total liabilities				**(20,816)**

2007	Mine development US$'000	Engineering services US$'000	Corporate[1] US$'000	Consolidated US$'000
Capital additions	49,841	59	4,108	54,008
Acquisition of minority interest	12,148	–	–	12,148
Acquisition of licences	51,836	–	–	51,836
Acquisition of subsidiary – assets acquired	–	12,165	–	12,165
Change in value of deferred consideration	18,492	–	–	18,492
Change in estimated consideration	(7,456)	–	–	(7,456)
Depreciation and amortisation	609	239	11	859
Balance sheet				
Assets				
Segment assets	569,787	16,100	65,357	651,244
Investment in associate	2,854	–	–	2,854
Unallocated assets	–	–	–	510,351
Consolidated total assets				1,164,449
Liabilities				
Segment liabilities	(9,765)	(4,697)	(2,131)	(16,593)
Unallocated liabilities	–	–	–	(5,460)
Consolidated total liabilities				(22,053)

1 Corporate assets include US$3.9 million capitalised in respect of the titanium sponge project. This project is managed by Corporate and thus these capitalised costs are recognised in that segment.

Unallocated Assets and Liabilities are as follows:

	Unallocated assets		Unallocated liabilities	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Unallocated assets/(liabilities)				
Cash equivalents	**241,906**	344,176	**–**	–
Short-term investments	**–**	91,791	**–**	–
Loan receivable from a related party	**–**	65,111	**–**	–
Loan receivable from an associate	**–**	4,288	**–**	–
Other receivables	**528**	106	**–**	–
Current tax liability	**–**	–	**(1,182)**	(446)
Deferred tax assets/(liabilities)	**–**	4,879	**(2,422)**	(5,014)
Total unallocated assets/(liabilities)	**242,434**	510,351	**(3,604)**	(5,460)

7 Segmental Information continued

Geographical Segments

The Group's operations are located in Russia, China and the United Kingdom. The Group's mine development division is located in Russia. The Group's corporate activities are carried out in Russia and the United Kingdom.

The Group has certain treasury and management functions which are located in Cyprus. Transactions are mostly intra-Group, specifically intra-Group loans and the holding of investments in Group companies. These transactions are eliminated upon consolidation, and as such the Group does not report Cyprus as a separate geographic segment at 31 December 2008 and 31 December 2007.

The Group has a joint venture in China established in September 2008. The Group also has a representative office in China.

All engineering sales revenues for the current and previous year were earned from customers located in Russia. All mine development revenue was earned from Chinese customers.

The following table is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

2008	**Russia US$'000**	**United Kingdom US$'000**	**China US$'000**	**Unallocated corporate assets US$'000**	**Total US$'000**
Carrying amount of segment assets	**506,047**	**1,248**	**28,953**	**242,434**	**778,682**
Additions to property, plant and equipment	**103,832**	**4,296**	**–**	**–**	**108,128**

2007	Russia US$'000	United Kingdom US$'000	Unallocated corporate assets US$'000	Total US$'000
Carrying amount of segment assets	588,741	65,357	510,351	1,164,449
Additions to property, plant and equipment	137,085	4,108	–	141,193

8 Impairment

Due to the current world economic crisis, falling commodity prices and the slow project finance market the Board has reviewed the Company's portfolio of assets for impairment.

The Group completed impairment testing for all of its cash-generating units ('CGUs') at 31 December 2008 and identified that a provision was required against certain CGUs due to a potential delay in the development of projects due to the unavailability of project financing and/or weaker forecast iron ore prices. Following the decision to develop K&S and Garinskoye as a single project, they have been assessed as a single CGU. An impairment provision of US$86.5 million was recognised against the Kuranakh project and a provision of US$299.9 million recognised in relation to the combined K&S and Garinskoye CGU.

For the purposes of testing for impairment, recoverable amounts have been determined as value in use, being estimated future cash flows discounted to their present value, based on a number of assumptions. The key assumptions are presented in the table below:

Discount rate post-tax	15.5%
Discount rate pre-tax	19.4%
Average Russian inflation rate for the years 2009–2030	4.6%
Average RUR:US$ exchange rate for the years 2009–2030	48.2
Average titanomagnetite concentrate prices for the years 2009–2024	US$/tonne 77.8
Average ilmenite prices for the years 2009–2024	US$/tonne 125.3
Average pig iron prices for the years 2009–2030	US$/tonne 461.6

Forecast inflation rates and sales prices for titanomagnetite concentrate, ilmenite and pig iron were provided by independent sources. The impairment tests are particularity sensitive to changes in discount rate, commodity prices and foreign exchange rate. Changes to these assumptions would result in changes to impairment charges, which could be material.

9 Loss for the Year

The loss for the year has been arrived at after charging:

	2008 US$'000	2007 US$'000
Staff costs (note 11)	**18,772**	11,446
Rent and utilities	**3,201**	1,209
Depreciation of property, plant and equipment expensed (note 18)	**1,174**	859
Travel and entertainment	**2,403**	1,594
Write down of inventory	**1,170**	–
Cost of inventory recognised as an expense	**123**	–
Loss on disposal of fixed assets	**201**	134
Listing costs	**–**	3,951

Listing expenses in 2007 represent costs associated with the admission of the Company's ordinary shares and warrants to the Official List of the Financial Services Authority and to trading on the London Stock Exchange plc's main Market for listed securities (the 'Listing') in October 2007. No new shares or warrants were issued at the time of Listing, and hence Listing costs have been recognised in the income statement, rather than directly in shareholders' equity, as would have occurred if new shares had been issued at the time of Listing.

Notes to the Consolidated Financial Statements 2008 continued

10 Auditors' Remuneration

The analysis of auditors' remuneration is as follows:

	2008 US$'000	2007 US$'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**334**	260
Fees payable to the Company's auditors for the audit of previous years	**88**	71
Fees payable to the Company's auditors and their associates for the audit of subsidiaries statutory accounts pursuant to legislation	**103**	42
Total audit fees	**525**	373
Tax services	**64**	230
Fees for reporting accountants services	**–**	1,056
Other services		
Interim review fee	**84**	51
Accounting advice	**198**	91
Offer assistance in preparation for Listing	**–**	141
Other services	**57**	–
Total non-audit fees	**403**	1,569

11 Staff Costs

The average number of employees (including Executive Directors) was:

	2008 Number	2007 Number
Mine development	**472**	147
Engineering services	**157**	72
Corporate	**12**	9
	641	228

Their aggregate remuneration comprised:

	US$'000	US$'000
Wages and salaries	**16,415**	8,939
Pension costs	**183**	150
Social security and other benefits	**1,692**	1,271
Share-based compensation plans	**482**	1,086
	18,772	11,446

12 Investment Revenue

	2008 US$'000	2007 US$'000
Interest income from cash and cash equivalents	**13,546**	14,327
Income on financial assets carried at fair value through profit and loss	**1,413**	3,351
Interest on investments held to maturity	**1**	5
Interest on other loans and receivables	**572**	865
Profit arising on settlement of derivatives	**–**	363
	15,532	18,911
Net foreign exchange gain	**–**	2,542
Total investment revenue	**15,532**	21,453
Related party income included in the above total investment revenues	**2,933**	2,668

13 Finance Costs

	2008 US$'000	2007 US$'000
Other finance costs	**186**	580
Net foreign exchange loss	**22,636**	–
Unwinding of discount on provisions and non-current liabilities	**402**	22
Total finance costs	**23,224**	602

There are no related party finance costs in the above total finance costs. Foreign exchange loss primarily relates to the foreign exchange differences on the Group's Rouble denominated funds.

14 Tax

	2008 US$'000	2007 US$'000
Current tax (expense)	**(2,709)**	(637)
Deferred tax (expense)/credit	**(2,873)**	2,633
	(5,582)	1,996

UK corporation tax is calculated at the blended rate of 28.5% (2007: 30%) of the estimated assessable profit for the year due to the change in the rate of UK corporation tax from 30% to 28% on 6 April 2008.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. From 2009 the corporation tax rate in Russia changes from 24% to 20%.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2008 US$'000	2007 US$'000
Loss before tax:	**(421,018)**	(1,885)
Tax at the UK corporation tax rate of 28.5% (2007: 30%)	**(119,990)**	(566)
Tax effect of share of associates' (profit)/loss	**(204)**	40
Tax effect of share of jointly controlled entities' loss	**124**	–
Tax effect of losses not recognised	**10,847**	213
Tax effect of expenses that are not deductible in determining taxable profit	**99,361**	1,323
Tax effect of utilisation of tax losses not previously recognised	**–**	(1,077)
Losses carried back	**547**	–
Effect in changes in tax rates	**453**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**19,226**	1,127
Adjustments in respect of prior years	**71**	–
Other foreign exchange movements	**1,776**	–
Foreign exchange movements in respect of deductible temporary differences	**(6,629)**	(1,460)
Benefits from previously unrecognised temporary differences	**–**	(1,596)
Tax expense/(credit) for the year	**5,582**	(1,996)

In addition to the amount charged to the income statements, in 2007 deferred tax relating to the equity component of share-based payments amounting to US$199,000 has been credited directly to equity (see note 21).

15 Operating Lease Arrangements

The Group as a Lessee

	2008 US$'000	2007 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	**2,886**	689

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 US$'000	2007 US$'000
Within one year	**1,381**	1,044
In the second to fifth years inclusive	**4,583**	5,967
	5,964	7,011

The Group as a Lessor

The Group earned property rental income during the year of US$1,231,000 (2007: US$452,000) on a building owned by a subsidiary of the Group, Giproruda. The lease contracts are at fixed rates for a period not exceeding three months. At the balance sheet date, the Group had contracted with tenants for minimum lease payments due within the first three months, totalling US$293,000 (2007: US$1,237,000 due within the next year). This rental income is shown net of the associated cost within other operating income.

Notes to the Consolidated Financial Statements 2008 continued

16 (Loss)/Earnings per Share
The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

(Loss)/Profit

	2008 US$'000	2007 US$'000
(Loss)/profit for the purposes of basic and diluted (loss)/earnings per ordinary share being net loss attributable to equity holders of the parent	**(427,377)**	1,040

Number of Shares

	Number '000	Number '000
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per ordinary share	**1,133,237**	791,263
Effect of dilutive potential ordinary shares	**–**	12,447
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per ordinary share	**1,133,237**	803,710

	US$	US$
Basic (loss)/earnings per ordinary share	**(0.38)**	0.00
Diluted (loss)/earnings per ordinary share	**(0.38)**	0.00

Basic and diluted EPS are the same at 31 December 2008 as the Group made a loss for the year then ended. As at 31 December 2008 the Group had 20,776,372 (2007: 21,176,372) potentially dilutive options over ordinary shares and 133,000,000 (2007: 133,000,000) potentially dilutive warrants.

17 Other Intangible Assets
Other intangible assets represent amounts paid during the years ended 31 December 2008 and 31 December 2007 to acquire licensed intellectual property in relation to the processing of titanium sponge. This amount will be reimbursed in full by the JV upon assignment of the licence. The Group committed to acquire further US$1.2 million of such intellectual property.

18 Property, Plant and Equipment

	Land and buildings US$'000	Fixtures and equipment US$'000	Plant and machinery US$'000	Mining properties and leases US$'000	Assets under construction US$'000	Total US$'000
Cost or valuation						
At 1 January 2008	16,769	3,269	5,405	446,534	90,941	562,918
Additions	756	7,686	11,213	–	88,473	108,128
Acquisition of minority interest (note 33)	–	–	–	110,707	–	110,707
Acquisition of licences (see note 33)	–	11	–	53,827	93	53,931
Disposals	–	(36)	(154)	(27)	–	(217)
Write-off of fixed assets	–	–	–	–	(156)	(156)
Transfers	–	9,163	3,603	(944)	(11,822)	–
Foreign currency exchange difference	(2,042)	(202)	(32)	(57)	(2,306)	(4,639)
At 31 December 2008	**15,483**	**19,891**	**20,035**	**610,040**	**165,223**	**830,672**
Accumulated depreciation and impairment						
At 1 January 2008	(232)	(330)	(918)	–	–	(1,480)
Depreciation charge for the year	(326)	(846)	(1,631)	(15)	–	(2,818)
Eliminated on disposals	–	12	42	–	–	54
Impairment	–	–	–	(306,010)	(80,381)	(386,391)
Foreign currency exchange difference	65	32	23	–	–	120
At 31 December 2008	**(493)**	**(1,132)**	**(2,484)**	**(306,025)**	**(80,381)**	**(390,515)**
Carrying amount						
At 31 December 2008	**14,990**	**18,759**	**17,551**	**304,015**	**84,842**	**440,157**

18 Property, Plant and Equipment continued

	Land and buildings US$'000	Fixtures and equipment US$'000	Plant and machinery US$'000	Mining properties and leases US$'000	Assets under construction US$'000	Total US$'000
Cost or valuation						
At 1 January 2007	3,836	2,221	3,454	374,617	37,472	421,600
Additions	756	584	1,920	1,170	49,578	54,008
Revaluation of minority interest	–	–	–	12,148	–	12,148
Change in deferred consideration	–	–	–	18,492	–	18,492
Change in estimated consideration	–	–	–	(7,456)	–	(7,456)
Acquisition of subsidiary	11,652	441	72	–	–	12,165
Acquisition of licences	–	10	–	49,641	2,185	51,836
Disposals	(91)	(8)	(45)	(221)	–	(365)
Write-off of fixed assets	–	–	–	–	(144)	(144)
Transfers	–	7	–	(1,857)	1,850	–
Foreign currency exchange difference	616	14	4	–	–	634
At 31 December 2007	16,769	3,269	5,405	446,534	90,941	562,918
Accumulated depreciation and impairment						
At 1 January 2007	(22)	(105)	(495)	–	–	(622)
Charge for the year	(206)	(227)	(426)	–	–	(859)
Eliminated on disposals	1	2	3	–	–	6
Foreign currency exchange difference	(5)	–	–	–	–	(5)
At 31 December 2007	(232)	(330)	(918)	–	–	(1,480)
Carrying amount						
At 31 December 2007	16,537	2,939	4,487	446,534	90,941	561,438

At 31 December 2008, US$1,507,000 (2007: US$1,507,000) cumulative capitalised interest and borrowing costs were included within assets under construction in the above table. The effective rate of interest capitalised in 2008 was nil% (2007: nil%). Depreciation of US$1,644,000 (2007: US$390,000) relating primarily to assets used in the construction of the Olekma plant was capitalised in the year.

No assets were held under finance leases either at 31 December 2008 or 31 December 2007.

There are no restrictions on title and no property, plant and equipment has been pledged as security.

At 31 December 2008, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$81,660,000 (2007: US$36,749,000), including the commitment to contribute US$48.7 million to the share capital of the Titanium Sponge JV as disclosed in note 20.

19 Investment in Associates

Investments in associates held at 31 December 2008 relates to the Group's 49% ownership interest in the ordinary shares of LLC Uralmining ('Uralmining'), a company holding the licence to develop the Bolshoi Seym deposit.

This investment was previously recognised as a financial asset investment held at cost, as the Group did not exercise significant influence over this entity due to the management arrangements in place. During July 2007 the Group lent amounts to Uralmining to fund its development programme, and significant influence was obtained at this time. Details of loan amounts receivable from Uralmining at 31 December 2008 and 31 December 2007 are set out in note 24.

	US$'000
At 1 January 2008	2,854
Share of associate's profit	850
At 31 December 2008	**3,704**

There was no revenue earned in 2008 (2007: nil).

	US$'000
At 1 January 2007	–
Acquired	8,148
Transfer from Financial Asset Investments	2,981
Transfer to subsidiary	(8,216)
Share of associate's loss	(59)
At 31 December 2007	2,854

Notes to the Consolidated Financial Statements 2008 continued

19 Investment in Associates continued
Aggregated amounts relating to Uralmining are set out below.

	2008 US$'000	2007 US$'000
Total assets	**20,981**	12,493
Total liabilities	**(13,422)**	(6,669)
Net assets	**7,559**	5,824
Aricom share of net assets	**3,704**	2,854
Share of profit/(loss)	**850**	(127)

20 Interest in Joint Ventures
On 12 August 2008 a JV contract was signed between Aricom plc and Chinalco and approved by the Chinese Ministry of Commerce. In accordance with the terms of the JV agreement, Aricom will hold 65% of the JV and 35% will be held by Chinalco, with the parties having joint control and contributing RMB 474.5 million (c US$69.5 million) and RMB 255.5 million (c US$37 million) respectively. The first tranche of US$20.8 million was paid by the Group in September upon registration of the JV. The second tranche is scheduled to be paid by 3 March 2009.

	US$'000
At 1 January 2008	–
Acquired on incorporation	20,812
Share of joint venture's loss	(444)
Foreign currency exchange differences	19
At 31 December 2008	**20,387**

There was no revenue earned in 2008.

Aggregated amounts relating to the joint venture are set out below.

	2008 US$'000
Total assets	**33,650**
Total liabilities	**(2,285)**
Net assets	**31,365**
Aricom share of net assets	**20,387**
Expenses	**(684)**
Share of loss	**(444)**

21 Deferred Tax Assets and Liabilities
The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current reporting year.

	Accelerated tax depreciation US$'000	Deferred mine development costs US$'000	Timing difference in cost recognition US$'000	Share-Based Payments US$'000	Undistributed profits subsidiaries US$'000	Unrealised foreign exchange gains US$'000	Tax losses US$'000	Total US$'000
At 1 January 2008	(3,449)	4,857	(146)	473	(2,521)	(946)	1,597	(135)
Credit/charge to income	14	(4,942)	290	(437)	2,330	946	(1,527)	(3,326)
Effect of change in tax rate on income statement	465	20	(32)	–	–	–	–	453
Exchange differences	896	–	(395)	(36)	191	–	(70)	586
At 31 December 2008	**(2,074)**	**(65)**	**(283)**	**–**	**–**	**–**	**–**	**(2,422)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2008 US$'000	2007 US$'000
Deferred tax assets	**–**	4,879
Deferred tax liabilities	**(2,422)**	(5,014)
	(2,422)	(135)

At 31 December 2008, the Group has unused tax losses of US$43,236,000 which primarily expire at the end of 2017. No deferred tax asset has been recognised in respect of these losses as there is not sufficient certainty that there will be sufficient taxable profit against which to offset these losses in the next two years.

The Group has not recognised deferred tax assets of US$18,247,200 in respect of temporary differences arising on certain capitalised development costs. A deferred tax asset of US$6,629,000 in respect of the Russian operations of the Group was reversed due to significant strengthening of the US Dollar against the Russian Rouble during 2008.

The Russian corporation tax rate changed from 24% to 20% effective 1 January 2009.

Temporary differences arising in connection with interest in associates are insignificant.

22 Other Non-current Assets

	2008 US$'000	2007 US$'000
Deferred stripping costs	**2,453**	–
VAT recoverable in Russia after more than one year	**94**	112
Loans receivable	**434**	–
Other non-current assets	**347**	–
	3,328	112

Deferred stripping costs represent costs incurred and deferred based on the stripping ratio 4.94 for the current period to the extent it exceeds the life-of-mine ratio for Saikta mine of 1.38. Such deferred costs will be amortised in subsequent periods to the extent that the period's stripping ratio falls below the life-of-mine ratio.

Loans issued relate to amounts paid to employees of the Group during 2008.

VAT recoverable in Russia after more than one year as at 31 December 2008 principally relates to amounts paid in relation to prepayments for goods with long lead times which will not be recoverable until the goods have been delivered.

23 Inventories

	2008 US$'000	2007 US$'000
Work in progress	**1,191**	–
Materials	**4,640**	1,173
Spare parts	**2,650**	842
	8,481	2,015

No inventories have been pledged as security. At 31 December 2008 work in progress has been written down to its net realisable value resulting in a charge to the income statement of US$1.17 million.

24 Trade and Other Receivables

	2008 US$'000	2007 US$'000
Amounts due from customers under engineering contracts	**2,351**	426
Trade receivables	**1,807**	1,558
VAT recoverable	**16,392**	8,670
Other debtors	**2,117**	1,091
Prepayments and accrued income	**15,155**	13,044
Amounts owed by associate	**6,368**	4,288
	44,190	29,077
Loan receivable from a related party	**–**	65,111

As at 31 December 2008 prepayments include US$12,862,000 (31 December 2007: US$10,822,000) in relation to fixed assets.

Amounts due from customers under engineering contracts are due for settlement within one year, and relate to the long term contracts in progress.

Amounts included in trade receivables at 31 December 2008 relates to services performed under engineering contracts and invoiced to date. No amounts are past due at the reporting date. Trade receivables are due for settlement between one and three months.

The Directors consider that the carrying value of trade and other receivables is approximately equal to their fair value.

25 Short-term Investments

	2008 US$'000	2007 US$'000
Financial assets at FVTPL	**–**	91,669
Held-to-maturity financial asset: promissory note	**–**	122
	–	91,791

In 2007 financial assets carried at fair value through profit or loss comprised highly-liquid investments under discretionary management service with a maturity of up to six years, and short-term deposits with varying maturities of between three to seven months. During 2008 the Group disposed its financial assets carried at fair value through profit or loss and transferred funds to cash and cash equivalents. At 31 December 2008 the Group did not hold any funds under discretionary management service and short-term deposits (2007: US$48,899,000 and US$42,770,000 respectively).

The held-to-maturity financial asset was a promissory note which matured in March 2008.

Further disclosures required under IFRS 7 *Financial Instruments: Disclosures* are set out in note 38.

Notes to the Consolidated Financial Statements 2008 continued

26 Cash and Cash Equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and short-term highly-liquid investments in money market funds. The carrying amount of these assets approximates their fair value.

	2008 US$'000	2007 US$'000
Bank accounts and deposits	**72,299**	84,248
Money market funds	**185,523**	288,044
Money market portfolio	**–**	34,395
	257,822	406,687

Investments in money market funds are held for the purposes of diversification of risk. Accordingly, as these funds are available on demand and have insignificant risk of change in value they are classified as cash equivalents. Further disclosures required under IFRS 7 *Financial Instruments: Disclosures* are set out in note 38.

27 Trade and Other Payables

	2008 US$'000	2007 US$'000
Trade creditors	**3,933**	1,987
Taxation and social security	**908**	541
Other creditors	**2,172**	2,250
Accruals and deferred income	**3,749**	3,502
Fixed asset creditors and accruals	**4,231**	4,448
	14,993	12,728

For trade creditors the average credit period on purchases of goods and services is 14 days (2007: 30 days). At 31 December 2008, trade creditors which are due for settlement within three months total US$3,812,000 (2007: US$1,682,000). Trade creditors due for settlement between three months and one year total US$117,000 (2007: US$305,000).

Other creditors include the current portion of amounts owed to the Administration of Masanovskiy Region, as detailed in note 28. The current portion of this liability was US$914,000 at 31 December 2008 (2007: US$1,059,000), and will be settled in four to eight months.

The Directors consider that the carrying amount of trade payables approximates their fair value.

28 Other Non-current Liabilities

	2008 US$'000	2007 US$'000
Cash-settled share based payments (see note 36)	**111**	483
Other non-current liabilities	**–**	1,088
	111	1,571

Other non-current liabilities at 31 December 2007 included the long-term portion of amounts owed to the Administration of Masanovskiy Region in connection with obligations arising under the Garinskoye licence of US$922,000. At 31 December 2008 all amounts payable to the Administration of Masanovskiy Region are due within one year and included in current liabilities.

29 Long-term Provisions

	2008 US$'000	2007 US$'000
Balance at the beginning of the year	**2,294**	–
Provision recognised in the year	**–**	2,294
Unwinding of discount	**228**	–
Exchange difference	**(414)**	
Balance at the end of the year	**2,108**	2,294

The long-term provision recognised relates to mine closure, site and environmental restoration costs for Kuranakh, based on estimates provided by external consultants in 2007, which form part of the Technical Economic Model for Kuranakh. The expected timing of the cash outflows in respect of the provision is on the closure of mining operations expected to be after 2020. The provision recognised is for the present value of such costs.

30 Share Capital

	2008 No of shares '000	2008 US$'000	2007 No of shares '000	2007 US$'000
Authorised:				
Ordinary shares of £0.001 each	**2,000,000**	**–**	2,000,000	–
Allotted, called up and fully paid:				
At 1 January	**1,119,070**	**2,147**	453,611	816
Issued during the year	**63,794**	**118**	665,459	1,331
	1,182,864	**2,265**	1,119,070	2,147

Details of the ordinary shares in issue at the commencement of the year, ordinary shares issued during the year, and ordinary shares in issue at the year-end are given in the table below.

Date	Description	Price £	No of shares
1 January 2008	Number of ordinary shares in issue at the commencement of the period		1,119,069,960
5 February 2008	Issue of ordinary shares to PBO Handels GmbH (note 33)	0.6875	252,900
18 February 2008	Issue of ordinary shares to Olis Constructions Ltd (note 33)	0.705	28,265,903
5 March 2008	Exercise of share options granted to Mr Peter Howes on 31 December 2003	0.15	400,000
3 October 2008	Issue of ordinary shares to Myrtle Corporate Ltd and Ardoryna Commercial Ltd (note 33)	0.23	21,875,000
15 October 2008	Issue of ordinary shares to SG Hambros, the Company's LTIP trustee	0.20	13,000,000
31 December 2008	**Number of ordinary shares on issue at the end of the year**		**1,182,863,763**

The Company has one class of ordinary shares which carry no right to fixed income.

Warrants in Issue
On 4 June 2007, the Company issued 133 million units each comprising three ordinary shares and one tradable warrant. Each warrant confers the right to subscribe for one ordinary share at a price of 80 pence (subject to adjustment). These warrants expire on 9 June 2010.

Issue of Options
On 4 June 2007, the Company completed a private placement with the IFC which included the issue of an option to subscribe for 17,076,372 ordinary shares at an exercise price of 74 pence per share (subject to adjustment). The option expires on 4 June 2015. Under the terms of the option agreement the expiry date may be modified if:
(a) any time after the gross revenue from operations of the Group exceeds US$40 million and the volume weighted average closing price exceeds 160% of the exercise price; or
(b) two years after the gross revenue from operations of the Group exceeds US$40 million and the volume weighted average closing price exceeds 130% of the exercise price.

31 Own Shares

	2008 US$'000	2007 US$'000
Balance at 1 January	**20,256**	–
Acquired in the period	**4,545**	20,256
Balance at 31 December	**24,801**	20,256

Own shares represent ordinary shares held by the Aricom plc Employee Benefit Trust ('EBT') to provide benefits to employees under the Long-Term Incentive Scheme. During the current year the EBT subscribed for 13,000,000 (2007: 16,000,000) shares in the Company, for consideration of US$4,545,000 (2007: US$20,256,000).

Notes to the Consolidated Financial Statements 2008 continued

32 Reconciliation of Changes in Equity

	Share capital US$'000	Share premium account US$'000	Own shares US$'000	Retained loss US$'000	Share option reserve US$'000	Translation reserve US$'000	Other reserves US$'000	Minority interests US$'000	Total equity US$'000
Balance at 1 January 2008	2,147	1,130,638	(20,256)	(8,307)	10,378	1,969	9,900	15,927	1,142,396
Loss for the period	–	–	–	(427,377)	–	–	–	777	(426,600)
Exchange differences on translation of foreign operations	–	–	–	–	–	(14,345)	–	(793)	(15,138)
Shares acquired by EBT	22	4,523	(4,545)	–	–	–	–	–	–
Other shares issued	95	48,287	–	–	–	–	–	–	48,382
Expenses on issue of equity shares	–	(47)	–	–	–	–	–	–	(47)
Exercise of share option by P. Howes	1	119	–	61	(61)	–	–	–	120
Acquisition of 29.26% minority interest in Garinskoye (note 33)	–	–	–	–	–	–	19,700	(11,585)	8,115
Share-based payments	–	–	–	–	638	–	–	–	638
Balance at 31 December 2008	**2,265**	**1,183,520**	**(24,801)**	**(435,623)**	**10,955**	**(12,376)**	**29,600**	**4,326**	**757,866**

	Share capital US$'000	Share premium account US$'000	Treasury shares US$'000	Shares to be issued US$'000	Retained loss US$'000	Share option reserve US$'000	Translation reserve US$'000	Other reserves US$'000	Minority interests US$'000	Total equity US$'000
Balance at 1 January 2007	816	263,800	–	83,798	(9,628)	9,857	–	–	178,762	527,405
Revaluation of minority interest	–	–	–	–	–	–	–	(9,246)	9,246	–
Acquisition of minority interest	–	–	–	–	–	–	–	42,575	(183,481)	(140,906)
Minority interest at date of acquisition	–	–	–	–	–	–	–	–	15,859	15,859
Total recognised income and expense	–	–	–	–	1,040	–	1,969	–	(730)	2,279
Option purchased over minority interest	–	–	–	–	–	–	–	(19,700)	–	(19,700)
Equity element of deferred tax arising on share options	–	–	–	–	–	199	–	–	–	199
Share-based payments	–	–	–	–	–	603	–	–	–	603
Director's options exercised	–	–	–	–	281	(281)	–	–	–	–
Shares issued in respect of deferred consideration	130	102,160	–	(83,798)	–	–	–	–	–	18,492
Shares acquired by EBT	33	20,223	(20,256)	–	–	–	–	–	–	–
Other shares issued	1,168	769,371	–	–	–	–	–	–	–	770,539
Expenses on issue of equity shares	–	(24,916)	–	–	–	–	–	–	–	(24,916)
Change in purchase consideration of KS GOK	–	–	–	–	–	–	–	(3,729)	(3,729)	(7,458)
Balance at 31 December 2007	2,147	1,130,638	(20,256)	–	(8,307)	10,378	1,969	9,900	15,927	1,142,396

The treasury shares reserve represents the cost of shares in Aricom plc held by the EBT to satisfy awards under the Group's long-term incentive plan (see note 36).

33 Acquisitions

Acquisition of Minority Shareholder's Interest in Lapwing

On 17 January 2008, Aricom agreed to acquire the 0.1% ownership interest in Lapwing Limited ('Lapwing'), the holding company that owns LLC Garinskiy Mining and Metallurgical Complex ('GGMK' or 'Garinskiy'), which in turn holds the Garinskoye licence, from PBO Handelsges M.B.H. ('PBOH'), one of the minority shareholders. In consideration for the acquisition of this minority interest Aricom issued 8.43 ordinary shares for every 1 Lapwing share held by PBOH, resulting in the issue of 252,900 ordinary shares on 5 February 2008 when the market value was £0.6875 per ordinary share. The total purchase consideration for the acquisition of this minority interest was US$0.3million.

The transaction was completed on 5 February 2008, when the cost of net assets acquired other than the licence was US$0.04 million. The excess of the purchase consideration over this amount of $0.3m was allocated to Mining Properties and Leases in accordance with the Group's accounting policy for acquiring minority interests in controlled assets.

Acquisition of 29.26% Minority Interest in Lapwing and Settlement of Amounts Owed by Olis

On 15 February 2008, shareholder approval was obtained for the acquisition of Olis's 29.26% interest in the issued share capital of Lapwing. The acquisition was completed on 15 February 2008, resulting in an increase in the 70.22% interest in the project held by Aricom UK at 31 December 2007 to 99.58%, including the 0.1% interest acquired on 5 February 2008 detailed above.

The total consideration comprised the issue of 28,265,903 ordinary shares at a market value of £0.705 per share on 15 February 2008 (the 'Consideration shares'), the cash consideration comprising the net proceeds of the placing of 42,750,000 ordinary shares completed by the Company on 18 December 2007, less an agreed allocation of costs incurred in respect of this placing and the option premium of US$19.7 million paid in March 2007.

Including acquisition costs, the total purchase consideration for the acquisition of this minority interest was US$122.1 million.

On 19 December 2007, the Group entered into a loan agreement with Olis, lending an amount of US$65 million. The loan bore interest at a rate of 5.2% per annum, and was repayable at the earlier of the date of completion of the proposed acquisition by Aricom from Olis of shares in Lapwing, and the maturity date of the loan, being 30 June 2008.

The loan and respective interest were settled against the purchase consideration for the acquisition of Olis' 29.26% ownership interest in Lapwing.

A summary of the total consideration and settlement of the loan outstanding is set out in the table below:

	US$'000	US$'000
Option premium paid in March 2007		19,700
Issue of the Consideration shares*		39,084
Cash proceeds from the placing shares	64,221	
Agreed allocation of costs associated with the placing	(1,052)	
		63,169
Total consideration payable to Olis		121,953
Directly attributable legal costs		154
Total consideration		122,107
Cash consideration payable		63,169
The loan and respective interest outstanding on 15 February 2008		(65,543)
Residual amount payable by Olis to Aricom on 15 February 2008**		(2,374)

* At market value opening position and exchange rate at 15 February 2008.
** Including interest of US$0.1million charged in 2007 and US$0.4 million charged in 2008.

On 18 March 2008 Olis made a payment of US$2.4 million to settle the residual loan balance outstanding plus related accrued interest.

The transaction completed on 15 February 2008 when the cost of the net assets acquired, other than the licence, was US$11.2 million. The excess of the purchase consideration over this amount was US$110.9 million which was allocated to Mining Properties and Leases in accordance with the Group's accounting policy for acquiring minority interests in controlled assets.

Acquisition of Options to Acquire Kostenginskoye and Garinskoye Flanks Licences

On 25 March 2008 the Group entered into two option agreements enabling it, subject to all conditions precedent being met, to exercise options to purchase the entire share capital of Rumier Holdings Ltd and Guiner Enterprises Ltd, both of which are Cypriot registered companies (together the 'Cypriot Companies').

The Cypriot Companies hold 100% investments in LLC Optima and LLC Ekvador respectively, both of which are Russian registered companies (together the 'Russian Companies'). These Russian Companies held only the licences for the right to mine the Kostenginskoye and Garinskoye Flanks deposits respectively, and hence the acquisition was accounted for as an asset acquisition.

The sellers of the Cypriot companies were Myrtle Corporate Ltd and Ardoryna Commerical Ltd (the 'Sellers') which owned 51% and 49% respectively of the share capital of the Cypriot Companies.

Notes to the Consolidated Financial Statements 2008 continued

33 Acquisitions continued
The Group paid a total non refundable option premium of an aggregate of US$45 million cash to the Sellers to acquire the options.

These options were exercised on 30 September 2008 and shares were issued on 3 October 2008. The combined consideration for both assets upon exercise of the options amounted to US$45 million cash paid for the options and 21,875,000 ordinary shares in the Company (10,937,500 for each asset) as detailed below:

Consideration	US$'000
Non refundable option premium	44,976
Issue of 21,875,000 ordinary shares in Aricom plc at the market value of £0.23*	8,955
Total	**53,931**

* At market value opening position and exchange rate at 30 September 2008.

34 Notes to the Cash Flow Statement
(a) Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities

	2008 US$'000	2007 US$'000
Operating loss from continuing operations	**(413,326)**	(22,736)
Adjustments for:		
Depreciation of property, plant and equipment	**2,818**	859
Depreciation capitalised	**(1,644)**	(390)
Loss on disposal of fixed assets	**201**	134
Impairment provision	**386,392**	–
Impairment of goodwill	**58**	–
Write down of inventory to NRV	**1,170**	–
Share option and LTIP expense	**482**	1,086
Share of associates' (profit)/loss	**(850)**	59
Share of Jointly controlled entities loss	**444**	–
Listing costs	**–**	3,951
Other non-cash adjustments	**–**	6
Operating cash flows before movements in working capital	**(24,255)**	(17,031)
(Increase) in inventories	**(11,253)**	(1,811)
(Increase)/decrease in receivables	**(18,080)**	14,785
Increase/(decrease) in payables	**3,925**	(8,619)
Cash used in operations before interest and tax	**(49,663)**	(12,676)
Income tax paid	**(2,285)**	(190)
Net cash used in operating activities	**(51,948)**	(12,866)

(b) Major Non-Cash transactions
In February 2008 Aricom plc issued 28,518,803 ordinary shares as part of the consideration to acquire a further 29.36% of interest in the Garinskoye project. These ordinary shares were valued at US$39.4 million using the opening market value of a share and the exchange rate at the transaction date.

The loan and interest receivable from Olis amounted to US$65.5 million at the transaction date and was offset against the cash part of consideration payable by Aricom as part of the acquisition from Olis of a further 29.26% of interest in Garinskoye project.

An option premium of US$19.7 million was paid in March 2007 to Olis to acquire its interest in the Garinskoye project and was included in total consideration at the transaction date.

In October 2008 Aricom plc issued 21,875,000 ordinary shares as part of the consideration to acquire 100% of Kostenginskoye and Garinskoye flanks licences. These ordinary shares were valued as US$8.96 million using the opening market value of a share and the exchange rate at the transaction date.

Further details on these transactions are set out in note 33.

35 Contingent Liabilities
The Group is involved in legal proceedings with two minority shareholders in Lapwing, Gatnom Capital and Finance Ltd and O.M. Investments & Finance Ltd. The claim was filed in September 2008 in Cyprus and the respondents are Lapwing and Aricom UK. Claimants allege their holdings in Lapwing were improperly diluted as the result of the issuance of additional shares following a September 2007 shareholders' meeting. Claimants have asked the court to dissolve Lapwing, or, alternatively, to order that their shares be purchased at a price allegedly previously agreed upon or to be determined by an expert appointed by the court.

The Group's defence is due to be submitted on March 12, 2009. Management believes that the claim is of a limited merit and therefore does not represent a material threat to the Group.

At 31 December 2007, the Group was involved in two related legal proceedings. Both of these proceedings were concluded in the Group's favour.

36 Share-based Payments

Equity-settled Directors' Share Option Scheme

The Company has a share option scheme for Directors of the Group. These options over ordinary shares were issued in accordance with the Aricom plc Share Option Scheme. Options granted under the Share Option Scheme are not subject to performance criteria. Options are normally forfeited if the employee leaves the Group. There have been no variations to the terms and conditions or performance criteria for share options during the period.

No options over ordinary shares were granted in 2008 and no further options will be granted under the Share Option Scheme.

Details of the share options outstanding during the year are as follows.

At 31 December 2008

Date of grant	Date exercisable	Exercise price £	Options outstanding 1 January 2008	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2008
31/12/2003	31/12/2006 to 28/03/2008	0.15	400,000	–	–	(400,000)	–
19/07/2006	19/07/2009 to 19/01/2012	0.42	3,700,000	–	–	–	3,700,000
			4,100,000	–	–	(400,000)	3,700,000

At 31 December 2007

Date of grant	Date exercisable	Exercise price £	Options outstanding 1 January 2007	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2007
31/12/2003	31/12/2006 to 31/12/2013	0.15	1,000,000	–	–	(1,000,000)	–
31/12/2003	31/12/2006 to 28/03/2008	0.15	400,000	–	–	–	400,000
31/12/2003	31/12/2006 to 28/02/2007	0.15	850,000	–	–	(850,000)	–
19/07/2006	19/07/2009 to 19/01/2012	0.42	4,100,000	–	(400,000)	–	3,700,000
			6,350,000	–	(400,000)	(1,850,000)	4,100,000

The options outstanding at 31 December 2008 had a weighted average exercise price of £0.42 and a weighted average remaining contractual life of 3.6 years.

At 31 December 2008, the intrinsic value of the options granted on 19 July 2006, for which the vesting period had started is zero.

The inputs into the Black-Scholes model were as follows:

	Options granted 19 July 2006
Weighted average share price GBP	0.44
Weighted average exercise price GBP	0.42
Expected volatility %	92.00
Expected life in years	3.25
Risk-free rate %	4.83
Expected dividends GBP	0.00
Fair value per option GBP	0.279

For options granted 19 July 2006 the expected volatility of the ordinary shares has been computed by calculating the standard deviation of the return index on a daily basis by reference to the expected time for exercising the option. This was achieved using the historic price of the quoted ordinary shares over a restricted period for which the Group was listed on AIM (ie 2 years 7 months and 18 days).

The Group recognised total expenses of US$638,000 in 2008 (2007: US$603,000) related to equity settled share based payment transactions.

Cash Settled Long-Term Incentive Plan and Employee Benefit Trust

During the year ended 31 December 2007, the Group established a long-term incentive plan ('LTIP') to operate in conjunction with an employee benefit trust ('EBT'), which holds shares in Aricom plc for the benefit of employees (the participants).

In October 2007, the EBT subscribed for 16 million shares in Aricom plc, at a price of £0.62 per ordinary share (£9,920,000). The acquisition of these shares by the EBT was funded via a loan made by Aricom Treasury UK Limited to the EBT. In 2008 this loan was transferred to Aricom Services Limited. The loan is due for repayment in October 2017, or any other date agreed between the parties. Of the ordinary shares held by the EBT, 11 million have been allocated under the LTIP to Directors and members of senior management. In May 2008, a further 1 million have been allocated under the LTIP to a member of senior management.

In October 2008, the EBT subscribed for 13 million shares in Aricom plc, at a price of £0.20 per ordinary share (£2,600,000). The acquisition of these shares by the EBT was funded via a loan made by Aricom Services Limited to the EBT. The loan is due for repayment in October 2018, or any other date agreed between the parties. Of the ordinary shares held by the EBT, a further 17 million have been allocated under the LTIP to Directors and members of senior management.

Notes to the Consolidated Financial Statements 2008 continued

36 Share-based Payments continued
The LTIP has a qualification period of three years and a number of non-market performance related conditions which need to be satisfied for the LTIP to vest. The shares in Aricom plc will be held by the EBT on behalf of the participants for the vesting period, and should the Remuneration Committee advise the Trustees that the LTIP objectives have been successfully achieved, the shares will be sold, and any gains from this sale net of repaying the loan to Aricom Services Limited will be passed on to the participants.

The fair value of awards issued under the LTIP is determined using the Black-Scholes model at the balance sheet date using the assumptions detailed in the table below.

	Awards issued in October 2007	Awards issued in May 2008	Awards issued in October 2008
Weighted average share price GBP	0.076	0.076	0.076
Weighted average exercise price GBP	0.62	0.80	0.20
Expected volatility %	109.35	109.35	99.03
Expected life in years	3	2.5	3
Risk-free rate %	1.50	1.50	2.13
Expected dividends GBP	0.00	0.00	0.00
Fair value per award GBP	0.0096	0.0073	0.0845

The Group has recorded a credit of US$156,000 in 2008 (2007: an expense of US$483,000). The intrinsic value at 31 December 2008 was zero (2007: US$3,056,000).

37 Retirement Benefit Schemes
The Group does not operate any retirement benefit schemes, instead making defined contributions to employees' personal pension schemes.

The total cost charged to income of US$183,000 (2007: US$150,000) represents contributions payable to these schemes by the Group during the year.

38 Financial Instruments
Capital and Liquidity Risk Management
The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The capital structure of the Group at 31 December 2008 consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 32.

The Group did not hold any debt as at either 31 December 2008 or 31 December 2007.

Externally Imposed Capital Requirement
The Group is not subject to externally imposed capital requirements.

Significant Accounting Policies
Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of asset, financial liability and equity instrument are disclosed in note 3 to the Consolidated Financial Statements.

Categories of Financial Instruments

	Carrying value 2008 US$'000	Carrying value 2007 US$'000
Financial assets		
Cash and cash equivalents	**257,822**	406,687
Fair value through profit or loss		
Short-term financial assets investments	**–**	91,669
Held-to-maturity financial asset	**–**	122
Loans and receivables	**27,703**	72,461
Financial liabilities		
Amortised cost – trade and other payables	**(15,104)**	(13,421)

Financial Risk Management Objectives
The Board of Directors monitors the financial risks relating to the operations of the Group. These risks include market risk (primarily currency and interest rate risk) and credit risk.

Foreign Currency Risk Management
The Group is exposed to foreign exchange risk associated with fluctuations in the relative value of US dollars, GB pounds , Russian roubles and Chinese RMB. The Group's investment revenues are currently in US dollars, and prospective revenues from operations will be denominated and settled in US dollars. A proportion of capital and operational expenditure has been, and is expected to be, incurred in Russian roubles. Accordingly, the Group's financial results may be affected by fluctuations in the exchange rate between the Russian rouble and the US dollar. These risks are mitigated to the extent considered necessary by the Board of Directors through a combination of holding the relevant currencies and entering into forward contracts.

38 Financial Instruments continued

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Russian Roubles	**41,170**	57,634	**7,524**	8,622
US Dollars	**2,365**	81,458	**3,239**	1,624
GB Pounds	**1,008**	–	**63**	–

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to exchange rate movements between US dollars, Russian roubles and GB pounds. The following table details the Group's sensitivity to a 20% (2007: 5%) change in exchange rates of functional currencies of the Group's companies against the relevant foreign currencies. The 20% rate represents management's assessment of a reasonably possible change in foreign currency rates.

	US dollars currency impact		Rouble currency impact		GB pound currency impact	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000	**2008 US$'000**	2007 US$'000
Profit or loss	**88**	3,009	**5,384**	1,856	**152**	2

The Group's sensitivity to foreign currency measured as impact by per cent change has decreased during the current year mainly due to the decreased holdings of Russian rouble cash equivalents. However, due to the higher sensitivity rate applied the overall impact is higher in 2008. The Group's policy is to hold a portion of its cash equivalents in roubles to cover its exposure arising on capital and operational expenditure incurred in Russian roubles. When the Russian rouble started to weaken rapidly at the end of 2008 the Group reduced the portion held in Russian roubles.

Interest Rate Risk Management

The Group is exposed to interest rate risk through the holding of cash and cash equivalents, including monies invested into money market funds. The interest rates attached to these instruments are at floating rates. The Group also holds amounts on deposit with fixed rates of interest attached. The mix between fixed and floating rate financial assets limits the Group's interest rate risk. The Group's exposure to interest rates on these financial assets is detailed in the interest rate sensitivity section of this note.

Interest Rate Sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for the average balance of interest bearing financial asset investments held during the year. An increase/decrease of 1% in interest rates has been applied in this analysis.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would decrease/increase by $2,578,000 (2007: the Group's profit reported for the year ended 31 December 2007 would increase/decrease by US$3,380,000).

Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are monitored by the Board of Directors, and limits have been established to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The Group's principal financial assets are cash and cash equivalents and trade receivables. Cash equivalents represent investments in money market funds and amounts held on deposit with financial institutions.

The credit risk on liquid funds held in current accounts and available on demand is limited because our counterparties are primarily banks with high credit-ratings assigned by international credit-rating agencies.

The credit risk on money market funds is limited because the counterparties are investment funds with high credit-ratings assigned by international credit-rating agencies. These investment funds are managed in accordance with approved investment criteria, requiring that investments have certain credit ratings and limiting the concentration of investment in any one security.

For operational reasons the Group holds amounts on deposit with banks located in Russia, one of which is a related party, as detailed in note 39. At 31 December 2008, amounts held on deposit with this bank were US$19,298,000 maturing in January–February 2009 and representing 6.3% of total monetary assets held by the Group.

Notes to the Consolidated Financial Statements 2008 continued

38 Financial Instruments continued
The table below details major counterparties at the balance sheet date, the associated credit ratings of the counterparty and details the investment guidelines where appropriate. These, excluding related parties, represent 73% of total monetary assets held by the Group at 31 December 2008 (65% at 31 December 2007). The table below excludes any cash balances held on current accounts.

Type of financial asset	Counterparty	Currency	Rating	**Carrying amount at 31 December 2008 US$'000**	Carrying amount at 31 December 2007 US$'000
Cash equivalent	UBS –JP Morgan liquidity fund[1]	USD	AAAm	**27,287**	49,492
Cash equivalent	HypoVereinsbank –deposit accounts	USD	A+	**18,432**	–
Cash equivalent	Goldman Sachs – Liquid Reserves Fund USD[2]	USD	AAAm	**52,495**	51,441
Cash equivalent	Morgan Stanley – Liquid Reserves Fund USD[2]	USD	AAAm	**8,488**	102,982
Cash equivalent	RBS Asset Management – Global Treasury Fund USD[2]	USD	AAf	**65,266**	124,761
Cash equivalent	RBS Asset Management – Global Treasury Fund GBP[2]	GBP	AAf	**31,982**	8,861
Cash equivalent	Barclays Bank LLC – deposit accounts	USD	Ba1	**17,797**	–
Short-term financial assets at FVTPL	Expo Bank – deposit accounts	Roubles	Baa2.ru	**–**	31,166
Cash equivalent	Asia Pacific Bank[3] – deposit accounts	USD	–	**19,298**	–
Short-term financial assets at FVTPL	Asia Pacific Bank – deposits accounts	Roubles	–	**–**	11,078
Short-term financial assets at FVTPL	UBS – money market portfolio, bonds	USD	AAA-	**–**	48,899
Total				**241,045**	428,680

1 For securities that carry a long-term rating, the Sub-Fund's investments will generally be restricted to securities rated at least A2 by Moody's Investors Services('Moody's') or A by Standard & Poor's Corporation ('S&P'). For securities that carry a short-term rating the quality will be at least Prime-1 as rated by Moody's or A1 by S&P. The Sub-Fund may also invest in unrated securities which are in the opinion of the Investment Manager of comparable quality. The Investment Manager will seek to maintain the AAA-rating assigned by at least two rating agencies.
2 The minimum investment criteria for these funds require that investments have a minimum rating of A-1 (S&P) or P-1 (Moody's). A minimum of 50% of the portfolio is invested in securities rated A-1+ by S&P. The investment managers are permitted to invest in fixed rate securities with maturities up to 397 days, and floating rate notes with maturities up to two years. However, the weighted average maturity of the fund must be kept below 60 days.
3 Amounts held on deposit with Asia-Pacific Bank, which is a related party as detailed in note 39, mature in January-February 2009 and attract interest at a rate of 10% per annum. No official rating of Asia-Pacific Bank is available.

Trade receivables consist mostly of amounts outstanding under engineering contracts held by a subsidiary in Russia. A credit evaluation is performed on these customers prior to the commencement of these contracts. There were no balances past due at the reporting period end.

The Group's maximum exposure to credit risk, without taking account of the value of any collateral obtained, is limited to the carrying amount of financial assets recorded in the financial statements.

Liquidity Risk Management
Ultimate responsibility for liquidity risk management rests with the Board of Directors. At 31 December 2008 and 31 December 2007 the Group did not hold any external borrowings and the Group's principal financial liabilities were trade and other payables (see note 27 for maturity details). The Board of Directors monitors the level of liquid assets available to the Group and the level of funding required to meet its short, medium and long-term requirements.

39 Related Party Transactions
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its other related parties are disclosed below. All of the arrangements were carried out at arm's length and have been reviewed by independent members of the Board.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

Related Parties
Peter Hambro Mining plc and its subsidiaries are considered to be related parties due to Mr Peter Hambro, Mr Jay Hambro and Dr Pavel Maslovskiy's shareholdings and directorships in those companies and in Aricom plc.

Mr Peter Hambro is a Director and the beneficial owner of Peter Hambro Limited.

Expobank LLC and OJSC Asia-Pacific Bank (former LLC Amurpromstroybank) are considered related parties as Mr Peter Hambro and Dr Pavel Maslovskiy have an interest in these companies. From July 2008, Expobank LLC ceased to be a related party as at that time it was acquired by Barclays Bank PLC.

Up to 15 February 2008 Olis was considered to be a related party due its ownership interest in Lapwing, a subsidiary of the Group as it held 29.26% ownership interest in Lapwing (as set out in note 33).

A subsidiary of CJSC PhosAgro ('PhosAgro'), namely Apatit OJSC ('Apatit') is considered to be a related party due to PhosAgro's minority interest and significant influence in Giproruda.

Uralmining is an associate company (see note 19).

39 Related Party Transactions continued

Banking Arrangements with LLC Expobankand OJSC Asia-Pacific Bank

The Group has bank accounts with LLC Expobank and OJSC Asia-Pacific Bank.

The bank balances at 31 December 2008 and 31 December 2007 are set out below:

	2008 US$'000	2007 US$'000
LLC Expobank	**–**	39,892
OJSC Asia-Pacific Bank	**19,298**	11,078

During the year the Group earned interest on the balances held on accounts with the above banks of US$2,933,000 (2007: US$2,668,000).

The bank charges incurred with LLC Expobank and OJSC Asia-Pacific Bank during the year ended 31 December 2008 were US$61,000 (2007: US$104,000).

At 31 December 2008 and 31 December 2007 there were no loans outstanding from LLC Expobank and OJSC Asia-Pacific Bank.

In July 2008, Barclays Bank PLC acquired 100% of LLC Expobank and so Expobank is no longer a related party.

Loan Provided to Associate

The Group provided Uralmining with a loan (see notes 19 and 24 for details). The interest accrued on the loan is US$428,000 for the year ended 31 December 2008 (2007: US$45,000).

Trading Transactions

In addition to the transactions described above there were transactions (set out below) that related to the day to day operation of business:

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000	**2008 US$'000**	2007 US$'000	**2008 US$'000**	2007 US$'000
Peter Hambro Mining plc and its subsidiaries								
Peter Hambro Mining plc	**32**	14	**405**	441	**–**	–	**26**	8
OJSC Irgiredmet	**–**	–	**672**	61	**–**	–	**14**	–
CJSC MC Peter Hambro Mining	**–**	–	**913**	1,206	**10**	–	**1,389**	1,441
LLC NPGF Regis	**14**	7	**1,316**	308	**1**	2	**511**	–
LLC Obereg CHOP	**11**	–	**278**	165	**10**	–	**34**	–
CJSC Peter Hambro Mining Engineering	**13**	2	**5,714**	2,712	**0**	1	**–**	18
PHM SNG	**–**	5	**–**	–	**–**	2	**–**	–
CJSC Pokrovsky Rudnik	**95**	80	**417**	197	**177**	99	**146**	179
CJSC Malomyrskiy Rudnik	**16**	–	**–**	–	**16**	–	**–**	–
LLC Tokurskiy Rudnik	**54**	–	**–**	–	**–**	–	**–**	–
Dalgeologia	**52**	–	**3,654**	–	**–**	–	**495**	–
Kapstroy	**8,814**	1,558	**37,684**	23,730	**319**	114	**626**	1,960
Other related parties								
Peter Hambro Limited	**–**	10	**467**	481	**–**	–	**63**	20
Apatit OJSC	**2,120**	831	**–**	–	**757**	381	**–**	–
Andrey Kostava	**–**	–	**–**	–	**–**	102	**–**	–
Odolgo	**48**	23	**43**	–	**8**	–	**–**	–

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Remuneration of Key Management Personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2008 US$'000	2007 US$'000
Short-term employee benefits	**2,533**	3,006
Post-employment benefits	**131**	119
Cash-settled awards under LTIP	**(98)**	483
Share-based payments (refer to note 36)	**638**	603
	3,204	4,211

The main elements of the remuneration of the Directors were paid in sterling and are set out in the audited section of the Directors' Remuneration Report.

The remuneration of the highest paid Director was £491,000 (2007: £526,000).

Notes to the Consolidated Financial Statements 2008 continued

40 Events after the Balance Sheet Date
On 6 February 2009 the respective Independent Committees of the Board of Directors of Peter Hambro Mining plc ('PHM') and Aricom announced that they had reached agreement on the terms of a recommended merger of the two companies by which all of the issued share capital of Aricom will be acquired by PHM, in exchange for shares in PHM. The merger is conditional upon, among other things, certain Russian regulatory conditions being fulfilled to the reasonable satisfaction of both companies, and passing of the necessary resolutions by the shareholders of both companies and the sanction of the court.

The merger provides for the acquisition of Aricom shares to be effected by way of a court sanctioned scheme of arrangement under Part 26 of the Companies Act involving a capital reduction of Aricom under section 135 of the Companies Act 1985 (the 'Scheme').

The purpose of the Scheme is to enable PHM to acquire the whole of the issued and to be issued ordinary share capital of Aricom. Under the terms of the Scheme, if the Scheme becomes effective, all Aricom shares will be cancelled and Aricom shareholders will receive one fully paid new PHM share in exchange for 16 fully paid Aricom shares.

The merger values each Aricom share at 36.6 pence using the closing price per PHM share on 4 February 2009 of 585 pence, at 30.9 pence using the closing price of PHM shares on 5 February 2009 of 495 pence, and 24.9 pence using the closing price per PHM share on 8 January 2009 of 398 pence.

41 Group Companies

			Percentage of equity owned	
Subsidiary	Country of incorporation	Principal activity	**2008**	2007
Brasenose Services Limited	Cyprus	Holding company	**100%**	100%
Russian Titan Company Limited	Cyprus	Holding company	**100%**	100%
Kapucius Services Limited	Cyprus	Holding company	**100%**	100%
Dardanius Limited	Cyprus	Holding company	**100%**	100%
Arfin Limited	Cyprus	Financing	**100%**	100%
Metellus Limited	Cyprus	Holding company	**100%**	100%
Lapwing Limited	Cyprus	Holding company	**99.58%**	70.22%
Expokom Limited	Cyprus	Holding company	**100%**	100%
Tenaviva Limited	Cyprus	Holding company	**100%**	100%
Esimanor Limited	Cyprus	Holding company	**100%**	100%
Rumier Holdings Lts	Cyprus	Holding company	**100%**	100%
Guiner Enterprises LTD	Cyprus	Holding company	**100%**	100%
Aricom UK Limited	Great Britain	Holding company	**100%**	100%
Aricom Treasury UK Limited	Great Britain	Financing	**100%**	100%
Aricom Finance UK Limited	Great Britain	Financing	**100%**	100%
Aricom B Finance plc	Great Britain	Holding company	**100%**	100%
Aricom B Limited	Great Britain	Holding company	**100%**	100%
Aricom B Roubles Treasury Limited	Great Britain	Financing	**100%**	100%
Aricom Roubles Treasury UK Limited	Great Britain	Financing	**100%**	100%
Aricom Services Limited	Great Britain	Service company	**100%**	100%
Ariva HK Limited	Hong Kong	Holding company	**100%**	100%
Ariti HK Limited	Hong Kong	Holding company	**100%**	100%
LLC Aricom	Russia	Management company	**100%**	100%
LLC Olekminsky Rudnik	Russia	Mining	**100%**	100%
LLC Kimkano-Sutarskiy Gorno-Obogatitelniy Kombinat	Russia	Mining	**100%**	100%
LLC Rubicon	Russia	Development company	**100%**	100%
CJSC SGMTP	Russia	Development company	**100%**	100%
LLC TOK	Russia	Dormant	**100%**	100%
OJSC Giproruda	Russia	Engineering services	**70.28%**	70.28%
LLC Garinsky Mining & Metallurgical Complex	Russia	Mining	**99.58%**	70.22%
LLC Kostenginskiy Gorno-Obogatitelniy Kombinat	Russia	Mining	**100%**	100%
LLC Orlovo-Sokhatinsky Gorno-Obogatitelniy Kombinat	Russia	Mining	**100%**	100%
Joint-venture				
Heilongjiang Jiatal Titanium Co., Ltd	China	Production	**65%**	–
Associate				
LLC Uralmining	Russia	Mining	**49%**	49%

Parent Company Financial Statements 2008
Statement of Directors' Responsibilities

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Aricom plc

We have audited the parent company financial statements of Aricom plc for the year ended 31 December 2008 which comprise the Company balance sheet and the related notes 1 to 9. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Aricom plc for the year ended 31 December 2008 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors
The directors' responsibilities for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion
In our opinion:
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London
25 February 2009

Company Balance Sheet
As at 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Fixed assets			
Intangible assets	4	**613**	427
Tangible assets	5	**6,194**	4,290
Investments	6	**724,692**	925,285
		731,499	930,002
Current assets			
Debtors: due within one year	7	**518**	152,988
Cash at bank and in hand		**32,452**	90,462
		32,970	243,450
Creditors: amounts falling due within one year	8	**(6,042)**	(4,305)
Net current assets		**26,928**	239,145
Total assets less current liabilities		**758,427**	1,169,147
Creditors: amounts falling due after one year	8	**(80)**	(518)
Provisions for deferred taxation		**(828)**	(1,124)
Net assets		**757,519**	1,167,505
Capital and Reserves			
Called up equity share capital	3	**2,265**	2,147
Share premium	3	**1,183,520**	1,130,638
Share option reserve	3	**10,955**	10,378
Translation reserve	3	**(75,210)**	1,525
Other reserves	3	**22,200**	–
Profit and loss account	3	**(386,211)**	22,817
Equity Shareholders' Funds		**757,519**	1,167,505

The financial statements were approved by the Board of Directors and authorised for issue on 25 February 2009. They were signed on its behalf by:

G J Hambro
Director
25 February 2009

B Egan
Director
25 February 2009

Notes to the Financial Statements

1 Accounting Policies
The Aricom plc (the 'Company') balance sheet and related notes have been prepared in accordance with United Kingdom generally accepted accounting principles ('UK GAAP') and in accordance with UK Company law. The financial statements have been prepared on a historical cost basis.

A summary of the principal accounting policies is set out below. These have been applied consistently throughout the year and the preceding year.

As permitted by section 230 of the Companies Act, the profit and loss account of the Parent Company is not presented as part of these financial statements. The loss after tax for the year of the Parent Company was US$409,089,000 (2007: profit of US$25,600,000).

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 *Cash Flow Statements*.

The Company has taken advantage of the exemption from providing financial instrument disclosures under the terms of FRS 25 *Financial instruments: Disclosure and Presentation*.

2 Significant Accounting Policies
Other Intangible Assets
Other intangible assets represent licensed intellectual property purchased in relation to the processing of titanium sponge. These intangibles are measured at cost and are amortised on a straight line basis over their estimated useful life, which is a period of up to 10 years, but dependent upon the start-up date of the Titanium Sponge Plant.

Other Tangible Fixed Assets and Depreciation
Other tangible fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is provided on all such tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life or the life of the relevant licence, whichever is less, as follows:

	Average life in years
Office equipment	3–10
Computer equipment	3–6

Until they are brought into use fixed assets and equipment to be installed are included within assets under construction.

The cost of maintenance, repairs and replacement of minor items of tangible fixed assets are charged to the profit and loss account. Renewals and betterments are capitalised. Upon sale or retirement of tangible fixed assets, the cost and related accumulated depreciation are eliminated from the Financial Statements. Any resulting gains or losses are included in the profit and loss account.

Impairment of Tangible and Intangible Assets Excluding Goodwill
At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Finance Costs
Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate of the carrying amount.

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of the capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the assets ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

2 Significant Accounting Policies continued

Foreign Currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit and loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss for the period.

Financial Instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade Receivables

Trade receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at cost, including transaction costs.

Other investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Taxation

Provision is made for all foreseeable taxation liabilities.

Deferred taxation is calculated so as to recognise the expected future tax consequences of transactions and events recognised in the financial statements of the current and previous periods with the following exceptions:

- Provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been declared and accrued as receivables; and
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be taxable profit from which the future reversal of the timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

Pensions

The Company does not operate either a defined benefit or a defined contribution scheme for its employees. Contributions are made to individuals' personal pension schemes where applicable under the terms of their employment contracts.

Share-based Payments

The Company has applied the requirements of FRS 20 *Share-based Payment*. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Company issues equity-settled and cash-settled share-based payments to certain employees and under various contracts with third parties. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of a Black-Scholes or binomial model as deemed most appropriate for each individual issue. The expected lives used in the models have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled, share-based payments.

Notes to the Financial Statements continued

3 Company Combined Statement of Reserves and Reconciliation of Movement in Shareholders' Funds

	Share Capital US$'000	Share Premium US$'000	Shares to be issued US$'000	Share option reserve US$'000	Profit and loss account US$'000	Translation reserve US$'000	Other reserves US$'000	Restated Total[1] US$'000
At 1 January 2008	2,147	1,130,638	–	10,378	22,817	1,525	–	1,167,505
Total recognised income	–	–	–	–	(409,089)	(76,735)	–	(485,824)
Share-based payments*	–	–	–	638	–	–	–	638
Directors' options exercised	–	–	–	(61)	61	–	–	–
Shares acquired by EBT	22	4,523	–	–	–	–	–	4,545
Other shares issued	96	48,406	–	–	–	–	–	48,502
Payment from a subsidiary in respect of the issue of shares	–	–	–	–	–	–	22,200	22,200
Share issue costs incurred in the year	–	(47)	–	–	–	–	–	(47)
At 31 December 2008	**2,265**	**1,183,520**	**–**	**10,955**	**(386,211)**	**(75,210)**	**22,200**	**757,519**
At 1 January 2007	816	263,800	83,798	9,857	(3,064)	–	–	355,207
Total recognised income	–	–	–	–	25,600	1,525	–	27,125
Recognition of tax on equity element of Directors options	–	–	–	199	–	–	–	199
Share-based payments*	–	–	–	603	–	–	–	603
Directors' options exercised	–	–	–	(281)	281	–	–	–
Shares issued in respect of deferred consideration	130	102,160	(83,798)	–	–	–	–	18,492
Shares acquired by EBT	33	20,223	–	–	–	–	–	20,256
Other shares issued	1,168	769,371	–	–	–	–	–	770,539
Share issue costs incurred in the year	–	(24,916)	–	–	–	–	–	(24,916)
At 31 December 2007	2,147	1,130,638	–	10,378	22,817	1,525	–	1,167,505

* Please see note 36 to the Consolidated Financial Statements.

Please see note 30 to the Consolidated Financial Statements for details regarding the share capital.

Please see note 31 to the Consolidated Financial Statements for shares acquired by EBT.

4 Other Intangible Assets

Other intangible assets represent amounts paid during the years ended 31 December 2007 and 31 December 2008 to acquire licensed intellectual property in relation to the processing of titanium sponge. The useful life of these intangibles will be determined upon the start of production.

At 31 December 2008, the Company had entered into contractual commitments for the acquisition of intangible fixed assets amounting to US$1,160,000.

5 Tangible Fixed Assets

	Equipment, fixtures and fittings US$'000	Other fixed assets US$'000	Assets under construction US$'000	Total US$'000
Cost or valuation				
Cost at 1 January 2008	109	176	4,042	4,327
Additions	45	–	3,864	3,909
Disposals	(2)	–	–	(2)
Assets written off	(2)	–	–	(2)
Translation difference	(38)	(50)	(1,906)	(1,994)
At 31 December 2008	**112**	**126**	**6,000**	**6,238**
Accumulated depreciation				
At 1 January 2008	(37)	–	–	(37)
Charge for the year	(13)	–	–	(13)
Disposals	2	–	–	2
Assets written off	2	–	–	2
Impairment losses	–	–	(11)	(11)
Translation difference	11	–	2	13
At 31 December 2008	**(35)**	**–**	**(9)**	**(44)**
Net book value				
At 31 December 2008	**77**	**126**	**5,991**	**6,194**
At 31 December 2007	72	176	4,042	4,290

At 31 December 2008, US$118,000 (2007: US$118,000) cumulative capitalised interest and borrowing costs were included within assets under construction in the above table.

At 31 December 2008, the Company had entered into contractual commitments for the acquisition of tangible fixed assets amounting to US$8,005,000.

6 Investments

	Investments in Group companies US$'000	Investments into joint ventures US$'000	Other investments US$'000	Total US$'000
At 1 January 2008	922,144	–	3,141	925,285
Additions	670,707	20,892	408	692,007
Disposals	(484,879)	–	(5)	(484,884)
Impairment provision	(403,131)	–	–	(403,131)
Reclasses	155	–	(155)	–
Translation difference	–	(3,723)	(862)	(4,585)
At 31 December 2008	**704,996**	**17,169**	**2,527**	**724,692**

Additions to investments in Group companies during the current year represent the cost of the Company's investment into joint ventures during the year and capital injections into Group companies. Part of the capital injections were made in the course of the Group restructuring, when the Company invested shares held in some Cyprus subsidiaries (shown in the disposals) into Aricom UK Ltd, the UK subsidiary, in exchange for the Aricom UK Ltd shares allotment.

Significant changes to the Company's investment in Group companies are outlined below:

(i) The Company acquired 0.1% in Lapwing, Group subsidiary, for US$0.3 million in consideration for issue of 252,900 shares on 5 February 2008. See note 33 to the Consolidated Financial Statements for details. The investment was transferred to Aricom UK Ltd (see (iv) later).

(ii) The Company acquired 29.26% in Lapwing, Group subsidiary, for US$102.4 million on 15 February 2008. The Company issued 28,265,903 shares, which accounted for US$39.1 million and the remaining US$63.2 million were settled in cash by Aricom Treasury UK Ltd and compensated by Aricom plc during February 2008. See note 33 for details. The investment was transferred to Aricom UK Ltd (see (iv) later).

(iii) The Company entered into a joint venture agreement with Chinalco and contributed an initial US$20.8 million. See note 20 for details.

(iv) The Company transferred investments in Group companies at book value US$484.7 million in exchange for the allotment of shares in Aricom UK Ltd booked at US$428.1 million (with the difference affecting translation reserve) and contributed US$15 million in cash to the share capital of Aricom UK Ltd.

(v) The Company acquired shares in Aricom Treasury UK Ltd, another UK subsidiary, amounting to US$125 million in exchange for assigned loans provided to Group companies.

(vi) The Company identified that impairment provision is required against the investments in Aricom UK Ltd and Aricom Finance UK Ltd due to the impairment of the underlying investments held in the Kuranakh project and in combined K&S and Garinskoye project (see note 8 to the Consolidated Financial Statements for details).

Other investments at 31 December 2008 relate primarily to the Company's investment in Bolshoi Seym.

See note 20 to the Consolidated Financial Statements for capital commitments the Company had entered into regarding joint venture contracts.

7 Debtors

	2008 US$'000	2007 US$'000
Debtors: amounts falling due within one year		
VAT recoverable within one year	**200**	889
Amounts due from Group companies	**208**	151,888
Prepayments and accrued income	**104**	202
Other debtors	**6**	9
	518	152,988

The Directors estimate that the carrying amount of debtors approximates their fair value.

Notes to the Financial Statements continued

8 Creditors

	2008 US$'000	2007 US$'000
Trade creditors	**362**	206
Tax	**232**	46
Social security	**104**	25
Other creditors	**528**	20
Accruals and deferred income	**4,580**	3,870
Amounts due to Group companies	**236**	138
	6,042	4,305
Creditors: amounts falling due after more than one year		
Cash-settled share-based payments	**80**	352
Other creditors	**–**	166
	80	518

The Directors estimate that the carrying amount of creditors approximates their fair value.

9 Subsequent Events
Subsequent events have been disclosed in note 40 to the Consolidated Financial Statements.

Definitions and Glossary of Technical Terms

The following definitions apply throughout this Report unless the context requires otherwise:

'Aricom' or the 'Company' – Aricom plc, and/or where applicable, other members of the Group

'Aricom Securities' – Shares and/or Warrants

'Aricom UK' – Aricom UK Limited, a wholly owned UK subsidiary of the Company

'BAM Railway' – Baikal Amur Railway

'Board' – The board of Directors of the Company

'Bolshoi Seym' – An iron ore and ilmenite deposit located in the Tyndinskiy district of the Amur region, in which the Company has an indirect 49 %. interest

'Chinalco' – Aluminium Corporation of China

'Combined Code' – The Combined Code on Corporate Governance

'Dalgeophysica' – Russian State geological Consultancy Company FGGUP Dalgeophysica, Aricom drilling exploration subcontractor

'EAO' – Evreyskaya Avtonomnaya Oblast in Russia

'EBT' – Employee Benefit Trust

'FAS' – The Russian Federal Anti-Monopoly Service

'Fe' – Iron

'Garinsky' or 'GGMK' – LLC Garinsky Mining & Metallurgical Complex (formerly LLC AmurMining)

'Garinskoye' – An iron ore deposit field situated in the Mazanovsky Administrative District in the Amur Region in Russia's Far East

'Giproruda' – OJSC Institute for Engineering of Ore Mining Enterprises Giproruda, a Russian engineering company, a subsidiary of the Company

'GKZ' – State Committee for Reserves and Resources of the Russian Federation

'IFC' – International Finance Corporation

'ilmenite' – A black or dark brown mineral which is a major source of titanium and used as a feedstock for the production of titanium dioxide

'JORC' – The Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves, 2004 version

'K&S' – The Kimkanskoye and Sutaraskoye iron ore deposits field located in the EAO in the south-western part of Russia's Far East

'Kapstroy' – LLC Kapstroy, a subsidiary of PHM

'Kimkanskoye' – An iron ore deposit field located in the Obluchenski district of the EAO in the south-western part of Russia's Far East, constituting part of K&S

'KS GOK' – LLC Kimkano-Sutarskiy Gorno-Obogatitelniy Kombinat

'Kuranakh' – Titanomagnetite deposit field located in the Tynda district of the Amur Region, in Russia's Far East

'Kuranakh mine' – The Kuranakh titanomagnetite deposit, the licence to develop which is held by LLC Olekminsky Rudnik

'kV' – Kilovolts

'Lapwing' – Lapwing Limited

'LSE' – London Stock Exchange

'LTIP' – Long Term Incentive Plan

'LLC Aricom' – LLC Aricom, a wholly-owned Russian subsidiary of Aricom plc

'magnetite' – A ferromagnetic material form of iron oxide which is a valuable source of iron ore

'mt' – Million tonnes

'mtpa' – Million tonnes per annum

'OJSC' – Open Joint Stock Company

'Olekminsky Rudnik' – LLC Olekminsky Rudnik, a Russian company which is an indirect wholly owned subsidiary of the Company

'Olis' – Olis Constructions Limited

'OVOS' – The Russian equivalent of an Environment Impact Assessment report

'Philotus' – Philotus Holdings Limited

'PHM' – Peter Hambro Mining plc

'PHME' – Peter Hambro Mining Engineering, a subsidiary of PHM

'Sutarskoye' – An iron ore deposit field located in the Obluchenski district of the EAO in the south-western part of Russia's Far East, constituting part of K&S

't' – Tonnes

'TiO_2' – Titanium dioxide

'tpa' – Tonnes per annum

'Units' – Units each comprising 3 ordinary shares and 1 Warrant issued pursuant to the 2007 Placing

'Uralmining' – LLC Uralmining, a Russian company which won the auction for, and has been issued, the licence to exploit the Bolshoi Seym titanomagnetite ore deposit

'WAI' – Wardell Armstrong International Ltd, mining, mineral and alternative energy consultants

All references in this document to laws and regulations are to English laws and regulations, unless otherwise stated, or as the context otherwise requires. Unless otherwise stated, references to categories of reserves and resources are to Russian categories of reserves and resources.

All references to reserves and resources, capital expenditure, loans and valuations in this document are to 100%. thereof, unless otherwise stated, notwithstanding that in certain cases the Group's percentage interest may be less than this.

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Chairman

Mr Peter Hambro
Non-Executive Deputy Chairman

Mr Jay Hambro
Chief Executive Officer

Mr Brian Egan
Chief Financial Officer

Mr Yuri Makarov
Operations Director

Mr Martin Smith
Technical Director

Sir Malcolm Field
Senior Non-Executive Director

Sir Roderic Lyne
Non-Executive Director

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