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Financial Statements and Independent Auditor's Report

"ARTSAKH HEK"

Open Joint Stock Company

December 31, 2013

Content

Members of the board

Spartak Tevossyan	Chairman Ministry of Finance and Economics of the Nagorno-Karabakh Republic
Hayk Boyadgyan	"ArmSwissbank" CJSC
Hayk Beglaryan	
Raffi Balyozian	
Ara Ghonyan	
Vahram Beglaryan	"ARTSAKH HEK"OJSC, General Director
Karen Arabyan	"ARTSAKH HEK"OJSC, Debuty General Director

Company's management staff

Vahram Beglaryan	General Director
Karen Arabyan	Debuty General Director
Armen Gasparyan	Technical Director
Zhan Hovhannisyan	Financial and Economy Director
Arayik Davtyan	Chief Accountant

List of board members and Company's management staff is presented as of 31 December 2013.

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Independent auditor's report

To the shareholders of "ARTSAKH HEK" Open Joint Stock Company

We have audited the accompanying financial statements of the"ARTSAKH HEK" Open Joint Stock Company (the "Company"), which comprise the statement of financial position as of December 31, 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the“ARTSAKH HEK” OJSC as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

March 28, 2014

Anik Martirosyan	Andreas Hovhannisyan
Director-Partner	Auditor-Partner

Statement of financial position

In thousand drams

	Note	As of December 31, 2013	As of December 31, 2012
Assets			
Non-current assets			
Property, plant and equipment	4	15,469,113	14,644,866
Deferred tax assets	5	1,763	751
Prepayments	6	132,524	264,600
		15,603,400	14,910,217
Current assets			
Inventories	7	65,173	36,244
Trade and other receivables	8	848,945	1,028,698
Income tax prepayment		-	2,766
Borrowings provided		2,000	2,000
Cash and bank balances	9	12,437	79,834
		928,555	1,149,542
Total assets		16,531,955	16,059,759
Equity and liabilities			
Capital and reserves			
Share capital	10	10,650,000	10,650,000
Emission income	10	457,127	457,127
Capital reserve	10	140,874	123,220
Accumulated profit		458,460	385,517
		11,706,461	11,615,864
Non-current liabilities			
Loans and borrowings	11	3,919,973	2,941,774
		3,919,973	2,941,774
Current liabilities			
Loans and borrowings	11	786,718	1,461,978
Trade and other payables	12	80,328	40,143
Income tax liabilities		38,475	-
		905,521	1,502,121
Total equity and liabilities		16,531,955	16,059,759

The financial statements were approved on March 28, 2014 by:

Vahram Beglaryan
General Director

Arayik Davtyan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 31.

Statement of comprehensive income

In thousand drams

	Note	Year ended December 31, 2013	Year ended December 31, 2012
Revenue	13	2,168,442	1,516,318
Cost of sales	14	(633,597)	(518,352)
Gross profit		1,534,845	997,966
Other income		2,248	1,852
Distribution and marketing expenses		(2,319)	(2,542)
Administrative expenses	15	(211,756)	(201,097)
Other expenses	16	(30,729)	(58,083)
Results from operating activities		1,292,289	738,096
Finance expenses	17	(535,864)	(246,745)
Other financial items	18	(54,045)	(111,156)
Profit before tax		702,380	380,195
Income tax expense	19	(79,284)	(27,130)
Profit for the year		623,096	353,065
Other comprehensive income			
Items,that will not be subsequently reclassified to profit or loss		-	-
Items,that will be subsequently reclassified to profit or loss		-	-
Other comprehensive income for the year after tax		-	-
Total comprehensive income for the year		623,096	353,065
Profit per share	10	58.5 drams	33 drams

Statement of changes in equity

In thousand drams

	Share capital	Emission income	Capital reserve	Accumulated profit	Total
As of January 1, 2012	10,650,000	457,127	106,292	581,880	11,795,299
Profit for the year	-	-	-	353,065	353,065
Total comprehensive income for the year	-	-	-	353,065	353,065
Transfer to reserves	-	-	16,928	(16,928)	-
Dividends	-	-	-	(532,500)	(532,500)
As of December 31, 2012	10,650,000	457,127	123,220	385,517	11,615,864
Profit for the year	-	-	-	623,096	623,096
Total comprehensive income for the year	-	-	-	623,096	623,096
Transfer to reserves			17,654	(17,654)	-
Dividends				(362,099)	(362,099)
Interim dividends	-	-	-	(170,400)	(170,400)
As of December 31, 2013	10,650,000	457,127	140,874	458,460	11,706,461

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 31.

Statement of cash flows

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Cash flows from operating activities		
Profit for the year	623,096	353,065
Adjustments for:		
Depreciation	330,556	244,055
Loss on disposal of property and equipment	609	15,103
Income tax expense	79,284	27,130
Interest expense	535,864	246,745
Foreign exchange loss	54,045	111,156
Operating profit before working capital changes	1,623,454	997,254
Change in inventories	(28,929)	(4,027)
Change in trade and other receivables	179,753	78,970
Change in trade and other payables	40,302	14,307
Cash used in operations	1,814,580	1,086,504
Interest paid	(526,596)	(228,059)
Income tax paid	(39,055)	(10,982)
Net cash from/(used in) operating activities	1,248,929	847,463
Cash flows from investing activities		
Acquisition of property, plant and equipment	(1,155,412)	(729,439)
Proceeds from disposal of property, plant and equipment	-	133
Changes in prepayments	132,076	(244,327)
Provided borrowings, net	-	48,000
Net cash used in investing activities	(1,023,336)	(925,633)
Cash flows from financing activities		
Net proceeds from/repayments of loans and borrowings	261,548	655,195
Dividends paid	(532,499)	(532,500)
Net cash from financing activities	(270,951)	122,695
Net increase/(decrease) in cash and cash equivalents	(45,358)	44,525
Foreign exchange effect on cash	(22,039)	(5,373)
Cash and cash equivalents at the beginning of the year	79,834	40,682
Cash and cash equivalents at the end of the year	12,437	79,834

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 31.

Notes to the financial statements

1 Nature of operations and general information

“ARTSAKH HEK” Open Joint Stock Company (hereinafter: the Company) is established under the laws of the Republic of Nagorno-Karabagh on June 9, 2008. The Company is a legal successor of “ARTSAKH HEK” CJSC.

The major stockholder of the Company is the Republic of Nagorno-Karabagh: Government of the NKR, 47.9 percent as of reporting data.

The Company is mainly involved in production and sale of electricity. The electricity is produced by 5 power plants built in NKR with total power volume of 66.7 megawatts.

- Sarsang HPP,
- Trghi 1 HPP,
- Trghi 2 HPP,
- Mataghis 1 HPP,
- Mataghis 2 HPP:

Another HPP-Trghi 3 with power volume of 5 megawatts is under construction. The Company plans to put into operation Trghi 3 HPP in 4th quarter of 2014.

Produced electricity is realized to a Company which is sole Electricity transfer nets managing operating company in NKR.

The licenses for each operating HPP is provided for 15 years. The managment of the Company thinks that the licenses will prolonge without interaption.

The Company have licences production of electricity which is determined by Public Services Regulatory Commission of the Republic of Nagorno-Karabagh.

- “Sarsang” HPP’s license for production of electriciy is provided in 28.07.2008 for 15 years.

- “Trghi 1” HPP’s license for production of electriciy is provided in 11.06.2010 for 15 years.

- “Trghi 2” HPP’s license for production of electriciy is provided in 26.12.2011 for 15 years.

- “Mataghis 1” HPP’s and “Mataghis 2” HPP’s license for production of electriciy is provided in 17.07.2012 for 15 years, HPPs were put into operation from september 2012.

The legal address of the Company is 25a V. Sargsyan Street, Stepanakert, the Republic of Nagorno-Karabagh (NKR).

The annual average number of employees during 2013 was 178 employees (2012: 167 employees).

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that was published by the International Accounting Standards Committee (“IASC”).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that have been presented at their fair value.

2.3 Functional and presentation currency

The national currency of the Republic of Nagorno-Karabagh is the Armenian dram (“dram”), which is the Company’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in Armenian drams, since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note 20 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Foundation has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2013.

2.6 Standards, Changes and Interpretations on standards in action, which are not in operation yet and have not been input beforehand by the Company

On the date of approval of these financial statements, the International Accounting Standards Committee (“IASC”) has released several new standards, changes and interpretations on standards in action. However, these standards, changes and interpretations are not in operation yet and have not been input beforehand by the Company.

The management forecasts to input all the applicable publications in the accounting policy of the Company as soon as the publications come into force during the next period. You can find below the information in standards, changes and interpretations applicable for the Company financial statements. Several other new standards and interpretations have been released but, probably they will not have any significant impact on the financial statements of the Company.

IFRS 9 Financial instruments

IASC intends to fully replace IFRS 39 "Financial Instruments: Recognition and Measurement "with IFRS 9. Up to date Chapters on recognition, classification, and measurement and derecognition of Financial Assets and Liabilities, as well as on Hedging has been released. Previously it was foreseen to apply the above-mentioned Chapters for the periods after January 1, 2015. However, in November 2013 the provision of applying the IFRS 9 beginning from January 1, 2015 was declined in order to inchant the Companies proper time to pass to their new requirements. The Chapters on impairment methodology are still in the process of development. In November 2013 in the result of changes in IFRS 9 it was allowed to apply separately the provisions about the, so called, "own debts" without the necessity to change the other accounting of financial instruments.

The Company management has still to appreciate the influence of this new standard on the Company Financial statements. The Company management is not going to apply the IRFS 9 till the standard is completely ready and till it is possible to appreciate its full impact.

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 405.64 drams for 1 US dollar and 559.54 drams for 1 EUR as of December 31, 2013 (December 31, 2012: 403.58 for 1 US dollar and 532.24 drams for 1 EUR). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historic cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items, are included in other comprehensive income for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the statement of comprehensive income for the period.

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the statement of comprehensive income as incurred.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings	20-60 years
Constructions	20-60 years
Conveyance schemes	25-50 years
Machinery and equipment	5-60 years
Transportation means	5 years
Office equipment and tools	5 years
Perennial plants	5 years
Computers and accessories	1 year
Other fixed assets	5 years.

3.3 Intangible assets

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

Amortization is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the intangible assets, which is

Accounting software - 5 years

3.4 Leased assets

In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as an obligation under finance lease, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.
All leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.5 Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the Average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.6 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets classification and further measurement

Financial assets other than hedging instruments are divided into the following categories:

- receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets.
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in the statement of comprehensive income or directly in equity. See note 21.2 for a summary of the Company's financial assets by category.

Generally, the Company recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognized in the statement of comprehensive income line item "finance costs" or "finance income", respectively.

I. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment.

The balance of the allowance is adjusted by recording a charge or income to the statement of comprehensive income of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

II. Cash and bank balances

The Company’s cash and bank balances comprise cash in hand, bank accounts and cash in transit, which fall into “loans and receivables” category of financial instruments.

Financial liabilities classification and further measurement

The Company's financial liabilities include borrowings, trade and other payables, which are measured at amortized cost using the effective interest rate method. A summary of the Company's financial liabilities by category is given in the note 21.2.

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the statement of comprehensive income over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

ii Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.7 Impairment

Impairment of property, plant and equipment

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. 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 or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized 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 or 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 recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting 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 financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future 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.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3.8 Employee benefits

Short-term employee benefits include wages, salaries, short-term compensated absences (such as paid annual live and paid sick leave), and bonuses.

When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

a) As a liability after deducting the amount already paid. If the amount already paid exceeds the undiscounted amount of benefits, the Company recognizes this difference as an asset to the extent this prepayment will lead e. g. To a decrease in future payments, or recovery of financial resources, and

b) As an expense, unless it is included in the carrying amount of another asset.

3.9 Equity

Equity instruments issued by the Company are recorded at the nominal value. Difference between the proceeds from the share issue and nominal value is presented as share premium.
Incremental costs directly attributable to issue of ordinary shares are recognized as a deduction from equity.

Dividends are recognized as a liability in the period in which they are declared.

The Company creates capital reserve for covering the Company’s losses as well as for redemption of Company’s debt and shares when the Company’s profit and other assets are not enough to cover those.

Basic earnings per share is calculated by dividing profit by weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the share is outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

3.10 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.11 Income tax

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

Deferred tax is recognized on temporary 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. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

3.12 Segment reporting

The Company’s revenue is mainly derived from sale of electricity and power recovery. The Company has one operating segment. The measurement policies the Company uses for segment reporting under IFRS 8 are the same as those used in the financial statements that are not included in arriving at the operating profit of the operating segments. In addition, assets that are not directly attributable to the business activities of any operating segment are not allocated to a segment. Segment information is presented in the related notes.

3.13 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company.

The Company’s revenue is mainly derived from sale of electricity and power recovery.

The Company recognizes revenue when the services are provided to buyer and when it is possible to measure reliably the amount of revenue and it is probable that the economic benefits associated with the transaction will flow to the Company.

4 Property, plant and equipment

	Buildings, constructions	Conveyance schemes, structures	Machinery and equipment, transportation means,	Office equipment and tools	Out-off use	Construction in process	Other	Total
Cost								
As of January 1, 2012	4,327,278	629,581	6,094,629	26,603	48,499	5,661,873	6,107	16,794,570
Addition	292	202,199	155,704	2,557	2,165	365,561	961	729,439
Disposals	-	-	(16,053)	(992)	-	-	(381)	(17,426)
Reclassification	1,847,923	2,812,001	1,407,411	-	(50,664)	(6,016,671)	-	-
As of December 31, 2012	6,175,493	3,643,781	7,641,691	28,168	-	10,763	6,687	17,506,583
Addition	825	4,744	45,057	1,344	-	1,103,351	91	1,155,412
Disposals	-	-	(2,688)	(674)	-	-	(236)	(3,598)
As of December 31, 2013	6,176,318	3,648,525	7,684,060	28,838	-	1,114,114	6,542	18,658,397
Accumulated depreciation								
As of January 1, 2012	1,161,325	53,121	1,396,490	5,249	-	-	3,867	2,620,052
Charge for the year	77,430	34,026	125,590	4,304	-	-	2,505	243,855
Eliminated on disposal	-	-	(1,039)	(829)	-	-	(322)	(2,190)
As of December 31, 2012	1,238,755	87,147	1,521,041	8,724	-	-	6,050	2,861,717
Charge for the year	101,020	78,981	146,257	3,655	-	-	643	330,556
Eliminated on disposal	-	-	(2,343)	(410)	-	-	(236)	(2,989)
Reclassification	(5,443)	(43,100)	(43,480)	5,063	-	-	-	-
As of December 31, 2013	1,334,332	123,028	1,708,435	17,032	-	-	6,457	3,189,284
Carrying amount								
As of December 31, 2012	4,936,738	3,556,634	6,120,650	19,444	-	10,763	637	14,644,866
As of December 31, 2013	4,841,986	3,525,497	5,975,625	11,806	-	1,114,114	85	15,469,113

The Company did not have any pledged property, plant and equipment as of December 31, 2013 and December 31, 2012.

As of December 31, 2013 assets with an initial price of 44,179 thousand drams (as of December 31, 2012: 48,533 thousand drams) were accounted with the carrying amount of nil.

2013 and 2012 depreciation expense has been allocated as follows:

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Cost of sales	309,273	226,763
Administrative expenses	21,283	17,092
	330,556	243,855

During 2013, the increases of PPE consist:

Addition nature	Amount In thousand drams
1. Construction and installation works for Trghi 3 SHPP	487,898
2. Acquisition of equipments and other PPEs	595,308
3. Capitalized borrowing costs	72,206
	1,155,412

During 2012, the increases of PPE consist:

Addition nature	Amount In thousand drams
1. Construction and installation works for Mataghis 1 and Mataghis 2 SHPPs	353,665
2. Acquisition of equipments and other PPEs	102,726
3. Capitalized borrowing costs	273,048
	729,439

5 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousand drams	2013	2012
Balance at beginning of year	751	-
Charged to statement of comprehensive income	1,012	751
Balance at end of year	1,763	751

Deferred income taxes for the year ended December 31, 2013 can be summarized as follows:

In thousand drams	January 1, 2013	Recognized in statement of comprehensive income	December 31, 2013
Deferred income tax assets			
Provision on unused holidays	751	1,012	1,763
	751	1,012	1,763
Deferred income tax liabilities			
	-	-	-
Net position – deferred income tax assets	751	1,012	1,763

Deferred income taxes for the year ended December 31, 2012 can be summarized as follows:

In thousand drams	January 1, 2012	Recognized in statement of comprehensive income	December 31, 2012
Deferred income tax assets			
Provision on unused holidays	-	751	751
	-	751	751
Deferred income tax liabilities			
	-	-	-
Net position – deferred income tax assets	-	751	751

Analyzed as:	2013	2012
To be recovered/redeemed after more than 12 months	1,763	751
To be recovered/redeemed within 12 months	-	-

6 Prepayments

The Company made prepayments for acquisition of PPEs, from which during 2013 at the amount of drams 90,401 thousand was paid to "Hydro Energy Italy" CJSC for purchase of equipments for Trghi 3 HPP and 37,125 thousand drams was paid to Hayrapet Avenyan for the purchase of electric transformer.

The Company made prepayments for acquisition of PPEs, from which during 2012 at the amount of drams 258,600 thousand was paid to "Hydro Energy Italy" CJSC for purchase of equipments for Trghi 3 HPP.

7 Inventories

In thousand drams	As of December 31, 2013	As of December 31, 2012
Materials	13,446	13,574
Fuel	10,637	15,694
Spare parts	38,962	401
Other materials	2,128	6,575
	65,173	36,244

8 Trade and other receivables

In thousand drams	As of December 31, 2013	As of December 31, 2012
Trade receivables	630,932	588,601
Advances and prepayments	737	35,522
Receivables from the State budget	214,924	402,754
Other receivables	2,352	1,821
	848,945	1,028,698

The average credit period on sales of services is 106 days (2012: 142 days). No interest is charged on the trade receivables.
In determining the recoverability of a trade receivable the Company considers any change in the repayment pattern from the debtor from the date credit was initially granted up to the reporting date.

Receivables from the State budget includes deferred VAT subject to set-off – 210,310 thousand drams (2012: 402,286 thousand drams), which will set-off with VAT of revenue, when the Company pays appropriate invoices.
Management believes that the receivables from the State budget are fully recoverable.

9 Cash and bank balances

In thousand drams	As of December 31, 2013	As of December 31, 2012
Cash in hand	132	1,509
Bank accounts (AMD)	12,219	7,669
Bank accounts (foreign currency)	86	70,656
	12,437	79,834

10 Equity

10.1 Share capital

	Ordinary shares 2013	Ordinary shares 2012
Number of ordinary shares (unit)	10,650,000	10,650,000
Nominal value of ordinary shares	1,000	1,000
	10,650,000	10,650,000

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

As of December 31, 2013 number of issued ordinary shares are 10,650,000 and the number of declared (but not issued) ordinary shares are 4,450,000.

The number of shareholders of the Company is.

	31.12.2013		31.12.2012	
	unit	%	unit	%
The Government of NKR	5,100,000	47.9	5,100,000	47.9
Josef Ughurlian (USA, New York)	1,262,901	11.9	1,262,901	11.9
"Multicontinental distribution" LLC (Great Britain, Isle of Main IM 2AP)	1,193,692	11.2	1,193,692	11.2
"Zangezur Copper Molybdenum Combine" CJSC	657,933	6.2	333,333	3.1
"AEG" LLC (NKR, Stepanakert)	371,400	3.5	616,000	5.8
"V.P.B.P" ՓԲԸ (NKR, Stepanakert)	630,270	5.9	630,270	5.9
Other (Less 5%)	1,847,137	13.4	1,847,137	14.2
	10,650,000	100	10,650,000	100

10.2 Share premium

Share premium represents difference between the proceeds from and nominal value of share issues.

In thousand drams

	2013	2012
Opening balance	457,127	457,127
Share issue		
Proceeds from share issue	-	-
Share capital	-	-
Underwriting direct expenses	-	-
Closing balance	457,127	457,127

10.3 Capital reserve

In thousand drams

	2013	2012
Opening balance	123,220	106,292
Transfer to reserves	17,654	16,928
Closing balance	140,874	123,220

Based on the resolution of the Company's Shareholders General Meeting 2013, transfer to capital reserve equal to the amount of 5% 17,654 thousand was made from net profit of the year 2012 (2012: 5% 16,928 thousand drams of net profit of the year 2011).

10.4 Dividends

Based on the resolution of the Company's Shareholders General Meeting 2013, based on financial results of 2012 dividends were paid to Company's shareholders at the amount of drams 362,099 thousand, 50 dram per share (in 2012, based on financial results of 2011 dividends was paid to Company's shareholders at the amount of drams 532,500 thousand, 100 dram per share).

Based on the resolution N 4-2013/03 of the Board of Directors dated on 17 June 2013 interim dividends were paid 16 drams per 1 share.

10.5 Basic earnings per share

	2013	2012
Net profit for the year (in thousand drams)	623,096	353,065
Weighted average number of shares (units)	10,650,000	10,650,000
Basic earnings per share (drams)	58.50	33.20

11 Loans and borrowings

In thousand drams

	Current		Non-current	
	2013	2012	2013	2012
Loans	660,890	1,242,706	1,401,008	1,412,285
Borrowings	108,158	219,272	85,125	112,923
Bonds	17,670	-	2,433,840	1,416,566
	786,718	1,461,978	3,919,973	2,941,774

Name and number of the creditor/lender	Issuance date	Maturity date	Curr.	As of 31.12.13		Percen-tage
				Currency	In thousand drams	
"Artsakhbank" CJSC 64	27/04/12	27/04/15	USD	400,000	162,256	13.0%
"ArmSwissbank" CJSC 10-0015	31/03/10	25/03/14	USD	71,513	29,009	13.0%
"ArmSwissbank" CJSC 11-0027	18/07/11	10/06/16	EUR	60,932	34,094	13.0%
"ArmSwissbank" CJSC 11-029	13/04/11	13/04/16	USD	709,601	287,842	13.0%
"ArmSwissbank" CJSC 11-0013	27/04/11	27/04/16	EUR	110,819	62,008	13.0%
"ArmSwissbank" CJSC 12-0036-1	10/04/12	06/04/17	EUR	271,822	152,095	13.0%
"ArmSwissbank" CJSC 12-0036-2	06/12/12	06/04/17	EUR	883,423	494,310	13.0%
BLESS UCO 159-10/2	19/05/10	20/10/14	AMD	-	180,000	15.5%
BLESS UCO 159-10/3	24/05/10	25/05/15	AMD	-	150,000	15.5%
BLESS UCO 159-10/4	02/06/10	02/12/15	AMD	-	150,000	15.5%
BLESS UCO 044-11	16/05/11	15/05/18	AMD	-	200,000	16.0%
BLESS UCO 159-10/7	26/10/10	25/10/16	AMD	-	100,000	15.5%
BLESS UCO 159-10/8	01/11/10	25/10/16	AMD	-	50,000	15.5%
Serob Ayvazyan	25/06/10	30/09/14	USD	150,000	60,846	12.0%
Serob Ayvazyan	24/08/10	30/09/14	USD	70,000	28,395	12.0%
Artsakh Investment Fund 01/024	10/07/09	05/06/19	USD	256,488	104,042	10.0%
Total			USD	1,657,602	2,244,897	
			EUR	1,326,996		
Bonds	05/12/12	05/12/15	USD	6,000,000	2,433,840	10.0%
Grand Total					4,678,737	

As of 31 December 2013 not carried out interest expenses equals to drams 27,954 thousand.

Loans and borrowings

Loans and borrowings are secured by State guaranties issued by the Government of the NKR; it means that the Company does not have any pledged assets.

Interest expenses equals to drams 607,196 thousand, from which 72,206 thousand drams were capitalized and 534,990 thousand drams were classified as current expenses.

Bonds

On 5 December 2012, the Company issued 600 (six hundred) units of ordinary nominal non-documentary bonds, with a nominal value of US dollars 10,000, total amount eqauls to US dollars 6,000,000. In 2012 the amount of placed bonds was 3,510,000 US dollars, and the rest 2,490,000 was placed in January 2013. All bonds were placed to related parties.

Bonds rendement is 10% per annum, which are payed in semi-annual periods. The type of the placement is non-guaranteed.

Annual average interest rates of loans and borrowings for the reporting period by currencies are presented as:

Average rate	US dollar	12.4%
	Euro	13.0%
	AMD	15.6%
		14%

12 Trade and other payables

In thousand drams	As of December 31, 2013	As of December 31, 2012
Trade payables	29,505	2,999
Advances	-	300
Taxes and duties payable	16,349	9,845
Provision on unused holidays	17,631	15,017
Payables to sharholders	16,617	11,533
Other payables	226	449
	80,328	40,143

The average credit period on purchase of certain goods is 17 days (2012: 2 days). No interest is charged on the trade payables. The Company has financial risk management policies to ensure that all payables are paid within the credit timeframe.

13 Revenue

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
From realization of produced electricity		
Sarsang HPP	1,091,510	881,226
Trghi -1 HPP	212,531	203,493
Trghi -2 HPP	369,688	328,958
Mataghis -1 HPP	294,667	-
Mataghis -2 HPP	200,046	102,641
	2,168,442	1,516,318

The price on services rendered by the Company is determined by Public Services Regulatory Commission of the NKR.

2013

Price per 1 KWtH for transferred electricity built on natural water flow for the months from January to June 2013 equals to (without VAT):

- from big hydro power plants (Sarsang)-10.00 AMD,
- from small hydro power plants (Trghi -1) -19.50 AMD,
- from small hydro power plants (Trghi -2) -19.50 AMD,
- from small hydro power plants (Mataghis-1) -19.50 AMD
- from small hydro power plants (Mataghis-2) -19.50 AMD:

Price per 1 KWtH for transferred electricity built on natural water flow for the months from July to December 2013 equals to 16.375 (without VAT) for all HPPs

2012

Price per 1 KWtH for transferred electricity built on natural water flow equals to (without VAT):

- from big hydro power plants (Sarsang)- 10 AMD,
- from small hydro power plants (Trghi -1) -19.171 AMD,
- from small hydro power plants (Trghi -2) -19.171 AMD,
- from small hydro power plants (Mataghis-2) -19.171 AMD:

14 Cost of sales

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Employee benefits and social sec. payments	217,522	194,814
Depreciation	314,993	226,963
Maintenance of plants	38,875	33,400
Material expenses	23,734	29,815
Repair expenses	10,592	13,415
Other expenses	27,881	19,945
	633,597	518,352

15 Administrative expenses

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Employee benefits and social sec. payments	130,966	111,569
Depreciation and amortization	15,586	17,093
Travel and representative expenses	4,186	6,463
Lease expenses	14,880	14,880
Telecommunication expenses	3,356	5,218
Utility and office expenses	13,096	13,235
Non recoverable expenses	17,327	18,247
Audit and consulting expenses	5,000	7,111
Other expenses	7,359	7,281
	211,756	201,097

16 Other expenses

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Charges related to shares	7,351	6,184
Currency exchange transaction charges	4,503	5,856
Fines and penalties	3,934	3,542
Donations	14,367	23,337
Cost of sold PPE	-	15,102
Other expenses	574	4,062
	30,729	58,083

17 Finance costs, net

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Interest expenses on loans and borrowings	(277,424)	(228,275)
Bond interest expenses	(233,177)	(11,552)
Bond placement and service expenses	(24,389)	-
Interest expenses on bank transactions	(874)	(6,918)
Finance costs, net	(535,864)	(246,745)

18 Other financial items

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Foreign exchange effect on:		
Cash and cash equivalents	(22,039)	(5,373)
Trade payables	117	332
Loans and borrowings	(32,123)	(106,115)
	(54,045)	(111,156)

19 Income tax recovery

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Current tax	80,296	27,881
Deferred tax (refer to note 5)	(1,021)	(751)
	79,284	27,130

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2013	Effective tax rate (%)	Year ended December 31, 2012	Effective tax rate (%)
Profit/loss before taxation (under IFRS)	702,380		380,195	
Tax calculated at a tax rate of 10% (2012: 5%)	70,238	10.00	19,010	5.00
Effect of expenses that are not taxable	9,046	1.29	8,120	2.14
Income tax recovery	79,284	11.29	27,130	7.14

20 Significant accounting estimations and judgments

Assumptions and judgments are continually appreciated and are based on historical experience and other indicators, including the future events that are considered acceptable in those situations.

20.1 Significant accounting estimations

The Company realizes estimations and judgments regarding the future. These kinds of accounting estimations, as a rule, do not correspond to real results. See below the estimations and judgments according to which there is a great risk of significant corrections in assets and liability book values during the next financial year.

Useful life of PPEs

The management of the company has estimated the useful life of 20-60 years for PPEs, 25-50 years for Conveyance schemes, 5-60 years for machines and equipment, 1 year for computers and 5 year for others. The Company management believes that the estimated useful life of assets does not essentially differ from the predicted economic periods. In case these estimations change, there will be a great difference in the financial statements of the Company.

Deferred Tax estimation

As described in Note 5, Deferred Tax in amount of 1,763 thousand drams has been recognized. Deferred tax asset is consistent of holiday reserve. The Company management is sure that the Company will obtain efficient taxable income in the future to refund the deferred tax assets. In case the Company is not able to receive taxable income in the future the deferred tax assets will not be refunded.

21 Financial instruments

21.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the note 3.6.

21.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand drams	As of December 31, 2013	As of December 31, 2012
Receivables:		
Trade receivables	633,284	590,422
Borrowings provided	2,000	2,000
Cash and bank balances	12,437	79,834
	647,721	672,256

Financial liabilities

In thousand drams	As of December 31, 2013	As of December 31, 2012
Financial liabilities measured at amortized costs:		
Loans and borrowings	4,706,691	4,403,752
Trade and other payables	63,979	29,998
	4,770,670	4,433,750

See note 3.6 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes.

22 Financial risk management

Exposure to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk arises in the normal course of the Company's business.

The Company is not involved in financial assets active buy-sell affairs with speculative aim, as well as does not issue options. More significant financial risks the Company may undergo are described below.

22.1 Financial risk factors

a) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity price coming from operation and investment activities.

b) Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.
The main part of Company transactions are realized in Armenian drams. The dependence on exchange rate fluctuation arises from foreign sells and purchases in US dollars. Except from this the Company has a loans, issued bonds and borrowings in Euro and US dollars.
The exposure of the Company's financial assets and financial liabilities to the foreign currency risk is as follows:

Item As of December 31, 2013	Armenian drams	USD	EUR
Financial assets			
Trade receivables	633,284	-	-
Borrowings provided	2,000	-	-
Cash and bank balances	12,351	61	25
	647,635	61	25
Financial liabilities			
Loans and borrowings	857,954	3,106,230	742,507
Trade and other payables	63,979	-	-
	921,933	3,106,230	742,507
Net position	(274,298)	(3,106,169)	(742,482)

Item As of December 31, 2012	Armenian drams	USD	EUR
Financial assets			
Trade receivables	590,422	-	-
Borrowings provided	2,000	-	-
Cash and bank balances	9,178	70,632	24
	601,600	70,632	24
Financial liabilities			
Loans and borrowings	1,170,590	2,709,401	523,761
Trade and other payables	29,998	-	-
	1,200,580	2,709,401	523,761
Net position	(598,980)	(2,638,769)	(523,737)

The Company is mainly exposed to US dollar and Euro. The following table details the Company's sensitivity to a 10% (2012: 10%) increase and decrease in dram against US dollar and Euro. 10% (2012: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2012: 10%) change in foreign currency rates. The sensitivity analysis includes related party and non-related party loans. A negative number indicates an increase in profit or loss and other equity where dram lessen against the relevant currency.

	US dollar impact		EUR impact	
	2013	2012	2013	2012
Statement of comprehensive income	(310,617)	(263,877)	(74,248)	(52,374)

c) Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at fixed rates. This risk is managed by the Company by maintaining appropriate fixed rate borrowings.

The sensitivity analysis below has been performed for a 3% change in interest rates. 3% represents management's assessment of the possible change in interest rates.

If interest rates had been 3% higher/lower and all other variables were held constant, the Company's profit for the year ended December 31, 2013 would decrease/increase by drams 114,828 thousand (2012: increase/decrease by drams 52,874 thousand).

d) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

At the reporting date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

e) Liquidity risk

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

23 Fair value measurement

Management believes that the carrying amount of financial assets and financial liabilities recorded at amortized cost in the financial statements approximates their fair values.

24 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of equity comprising issued capital and accumulated profits and debt, which includes borrowings, bonds disclosed in the note 11.

The Company management reviews the capital structure on a regular basis to maintain the most optimal debt to equity balance, which is analyzed net debt divided by total capital, as follows:

In thousand drams	As of December 31, 2013	As of December 31, 2012
Total equity	11,706,461	11,615,864
Less: cash and bank balances	(12,437)	(79,834)
Total capital	11,694,024	11,536,030
Total equity	11,706,461	11,615,864
Loans and borrowings	4,706,691	4,403,752
Total financing	16,413,152	16,019,616
Capital/ total financing	0.71	0.72

Main ratio comparatives are presented bellow.

		2013	2012	2013	2012	increase (decrease)
SHORT TERM LIQUIDITY						
Current Ratio	Current Assets	928,555	1,149,542	1.03	0.77	25.4%
	Current Liabilities	905,521	1,502,121			
Acid Test Ratio	(Current assets - Inventory)	863,382	1,113,298	0.95	0.74	22.3%
	Current Liabilities	905,521	1,502,121			
Days Sales in Receivables	Accounts Receivable	848,945	1,028,698	142.9	247.6	-73.3%
	(Credit Sales/365 days)	5,941	4,154			
Inventory Turnover	Cost of Sales	(633,597)	(518,352)	-9.7	-14.3	-47.1%
	Inventory	65,173	36,244			
MOVEMENT OF CURRENT ASSETS						
Receivable Turnover	Credit Sales	2,168,442	1,516,318	2.31	1.42	38.5%
	Average Accounts Receivable	938,822	1,068,183			
Receivable Turnover	365 Days	365	365	158	257.1	-62.7%
	Receivable Turnover	2.31	1.42			
Average Days to Sell	365 Days	365	365	-37.5	-25.5	32.2%
	Inventory Turnover	(9.72)	(14.30)			
LONG TERM SOLVENCY						
Debt to Equity	Total Liabilities	4,825,494	4,443,895	0.41	0.38	7.2%
	Shareholders' Equity	11,706,461	11,615,864			
Long-Term Debt to Equity	Long-Term Debt	3,919,973	2,941,774	0.33	0.25	24.4%
	Shareholders' Equity	11,706,461	11,615,864			
Fixed Assets to Equity	Fixed Assets - Accumulated Depreciation	15,469,113	14,644,866	1.32	1.26	
	Shareholders' Equity	11,706,461	11,615,864			4.6%
Times Interest Earned	Income before interest and taxes	166,516	133,450	-0.31	-0.54	-74.0%
	Interest Expense	(535,864)	(246,745)			
Creditors Equity to Total Assets	Total Liabilities	4,825,494	4,443,895	0.29	0.28	5.2%
	Total Assets	16,531,955	16,059,759			
RETURN ON INVESTMENT						
Return on Total Assets	(Net Income + Interest Exp.) x (1- Tax Rate)	69,786	85,056	0.00	0.01	-26.1%
	Average Total Assets	16,295,857	15,752,491			
Return on Equity Capital	Net Income	623,096	353,065	0.05	0.03	43.6%
	Average Shareholders' Equity	11,661,163	11,705,582			
OPERATING PERFORMANCE						
Gross Margin	Gross Profit	1,534,845	997,966	0.71	0.66	7.0%
	Total Sales	2,168,442	1,516,318			
Operating Profit to Sales	Income from Operations	1,292,289	738,096	0.6	0.49	18.3%
	Total Sales	2,168,442	1,516,318			
Pretax Income to Sales	Pretax Income	702,380	380,195	0.32	0.25	22.6%
	Total Sales	2,168,442	1,516,318			
Net Income to Sales	Net Income	623,096	353,065	0.29	0.23	19.0%
	Total Sales	2,168,442	1,516,318			

25 Commitments

25.1 Operating lease commitments

The Company as lessee

Operating lease relates to the 2nd, 3nd floors and veranda of a building with a total area of 342.67 Sq.m (located at 25a V. Sargsyan Street, Stepanakert), the leasing period is 1 year and is leased from individual. The monthly lease payment is determined at drams 1,160 thousand in accordance with the contract signed on 01.01.2013.

On January 2014 the lease agreement was prolonged to 1 year with monthly lease payment at drams 1,170 thousand.

26 Contingencies

26.1 Business environment

Armenia and the Republic of Nagorno Kharabakh continues to undergo political and economic changes. As an emerging market, Armenia and the Republic of Nagorno Kharabakh do not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crises.

The possible effects of these factors on the Company may include the inability to pay creditors when they become due, impaired reputation, difficulties in selling the services, difficulties in obtaining funds, etc. All these problems may lead to the lessened liquidity of the Company and, accordingly, to going concern problems. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

26.2 Insurance

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

26.3 Taxes

The taxation system in Armenia and the Republic of Nagorno Kharabakh is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Armenia and the Republic of Nagorno Kharabakh substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations.

27 Related party transactions

27.1 Control relationships

The Company is controlled by board of shareholders and directors.

27.2 Transactions with related parties

Company's related parties are:

"Artsakhenergo" CJSC – the Company is controlled by the same shareholder (The Government of NKR).

Transactions with related parties are presented as follows:

In thousand drams	As of December 31, 2012	Transaction 2013	As of December 31, 2013
Sale of electricity			
"Artsakhenergo" CJSC	10,000	1,649,635	630,932
Purchases			
"Artsakhenergo" CJSC	2,434	48,221	3,579

27.3 Transactions with management and close family members

Key management received the following remuneration during the year, which is included in employee benefits.

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Salaries and bonuses, including contributions to Social State fund	27,243	23,920
	27,243	23,920

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