ARTSAKH HEK
Open Joint Stock Company

FINANCIAL STATEMETNS AND

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2010

YEREVAN
April 2011

TABLE OF CONTENTS

Page

MEMBERS OF THE BOARD

Spartak Tevosyan	Chairman Deputy Prime Minister of the Nagorno-Karabakh Republic

The Board Members

Karlen Petrosyan	Minister of Industrial Infrastructures of the Nagorno-Karabakh Republic
Mihran Galstyan	“ARMSWISSBANK” CJSC, senior adviser
Merujan Babayan	
Vahram Beglaryan	“Artsakh HEK” cjsc, General Director

MANAGEMENT OF THE COMPANY

Vahram Beglaryan	General Director
Jan Hovhannisyan	Financial and Economy Director
Arayik Davtyan	Chief Accountant

INDEPENDENT AUDITOR'S REPORT N 14

On the financial statements of "Artsakh HEK" open joint stock company
for the year ended 31 December 2010

To the Management of "Artsakh HEK" open joint stock company

We have audited the accompanying financial statements of "Artsakh HEK" open joint stock company (the Company) which comprise the balance sheet as at 31 December 2010, the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards of the Republic of Armenia, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.

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 from 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 also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of “Artsakh HEK” open joint stock company as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards of the Republic of Armenia.

8 April 2011
SOS–Audit LLC

Manvel Ghazaryan	Gnel Khachatryan
Director	Auditor

INCOME STATEMENT

Artsakh HEK OJSC
For the year ended 31 December 2010

	Note	2010 AMD' 000	2009 AMD' 000
Revenue	4	1,614,897	1,073,016
Cost of sales	5	(305,093)	(236,212)
Gross profit		**1,309,804**	**836,804**
Administrative expenses	6	(124,635)	(69,862)
Sales and distribution expenses		(3,573)	(335)
Other operating incomes		2,076	647
Other operating expenses	7	(28,169)	(27,518)
Other gain/(loss)	8	18,964	(61,555)
Profit before tax		**1,174,467**	**678,181**
Income tax expense	10	(58,573)	(38,327)
Net profit for the year		**1,115,894**	**639,854**
Earnings per share			
Basic earnings per share (AMD)	16.5	**185**	**114**

The financial statements were approved by the Company's Management on 8 April 2011. The accompanying notes form an integral part of these financial statements.

Vahram Beglaryan
General Director

Arayik Davtyan
Chief Accountant

BALANCE SHEET

Artsakh HEK OJSC
As at 31 December 2010

	Note	31.12.2010 AMD' 000	31.12.2009 AMD' 000
ASSETS			
Non – current assets			
Property, plant and equipment	11	11,633,520	7,859,112
Intangible assets	12	5,393	6,464
Advances on acquisition of PPE		83,272	449,748
		11,722,185	**8,315,324**
Current Assets			
Inventory	13	24,060	19,128
Trade and other receivables	14	577,423	504,177
Prepayments on supplies		14,621	3,971
Cash and cash equivalents	15	548,467	56,327
		1,164,571	**583,603**
Total assets		**12,886,756**	**8,898,927**
EQUITY AND LIABILITIES			
Equity			
Share capital	16.1	7,362,074	5,962,074
Share premium	16.2	158,748	43,104
Capital reserve	16.3	43,645	-
Accumulated profit		1,153,528	656,170
		8,717,995	**6,661,348**
Non-current liabilities			
Loans and borrowings	17	2,527,849	1,482,793
		2,527,849	**1,482,793**
Current liabilities			
Loans and borrowings	17	1,417,858	709,415
Trade and other payables	18	193,228	9,796
Income tax payable	10	29,826	35,575
		1,640,912	**754,786**
Total equity and liabilities		**12,886,756**	**8,898,927**

CASH FLOW STATEMENT

Artsakh HEK OJSC
For the year ended 31 December 2010

	2010 AMD' 000	2009 AMD' 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from clients	2,094,029	1,108,143
Other operating inflow	2,222	936
Payments to suppliers	(185,665)	(184,881)
Salary payments	(135,736)	(95,840)
Income tax paid	(64,322)	(9,412)
Other tax payments	(91,382)	(23,602)
Social security payments	(22,728)	(15,955)
Other operating payments	(11,090)	(4,720)
Net cash flows from operating activities	**1,585,328**	**774,669**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for acquisition of PPE	(3,345,836)	(2,562,336)
Bank deposits	(200,514)	-
Bank deposits redemptions	200,514	-
Interest received	1,614	-
Net cash flows from investing activities	**(3,344,222)**	**(2,562,336)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue proceeds	1,536,960	887,074
Borrowings received	2,848,391	2,759,674
Redemption of borrowings	(988,227)	(1,552,622)
Interest paid	(545,221)	(183,616)
Dividends paid	(595,101)	(69,730)
Net cash flows from financing activities	**2,256,802**	**1,840,780**
Net increase/(decrease) in cash	**497,908**	**53,113**
Foreign exchange gain/(loss)	(5,768)	(4,708)
Cash at the beginning of the year	56,327	7,922
Cash at the end of the year	**548,467**	**56,327**

STATEMENT OF CHANGES IN EQUITY

Artsakh HEK OJSC
For the year ended 31 December 2010

	Note	Share Capital	Share Premium	Capital Reserve	Revaluation Reserve	Accumulated Profit	Total
		AMD' 000	**AMD' 000**	**AMD' 000**	**AMD' 000**	**AMD' 000**	**AMD' 000**
Balance as at 01.01.2009		**5,100,000**	**-**	**-**	**13,087**	**72,960**	**5,186,047**
Proceeds from share issue		862,074	43,104	-	-	-	905,178
Dividends		-	-	-	-	(69,730)	(69,730)
Profit for the year		-	-	-	-	639,853	639,853
Internal movements		-	-	-	(13,087)	13,087	-
Balance as at 31.12.2009		**5,962,074**	**43,104**	**-**	**-**	**656,170**	**6,661,348**
Proceeds from share issue	16.1,16.2	1,400,000	136,960	-	-	-	1,536,960
Dividends	16.4	-	-	-	-	(596,207)	(596,207)
Profit for the year		-	-	-	-	1,115,894	1,115,894
Internal movements	16.2, 16.3	-	(21,316)	43,645	-	(22,329)	-
Balance as at 31.12.2010		**7,362,074**	**158,748**	**43,645**	**-**	**1,153,528**	**8,717,995**

NOTES TO THE FINANCIAL STATEMENTS

Artsakh HEK OJSC
For the year ended 31 December 2010

1. Background

1.1 Company and operations

Artsakh HEK OJSC (hereinafter – the Company) was established by the Decree of the Republic of Nagorno-Karabakh (the NKR) Government N360 dated 13.05.2008 as a result of restructure of "Artsakh HEK" closed joint stock company (registration number 44313011407, registration date 9 June 2008, certificate number 02A002083) and represents its successor.

The major shareholder of the Company is the Government of the NKR with shareholding of 69.3% as at reporting date.

The Company is mainly involved in production and sale of electricity.

Legal address of the Company is A. Arakelyan 10, Stepanakert, the NKR.

2. Basis of preparation

2.1 Statement of compliance

The Company maintains the accounting in compliance with the requirements of the NKR legislation, in compliance with the requirements of the Accounting Standards of the Republic of Armenia (ASRA).

2.2 Functional and presentation currency

The functional currency is the national currency of the Republic of Armenia, the Armenian Dram (AMD). AMD is also the presentation currency of these financial statements. All financial information presented in AMD has been rounded to the nearest thousand.

2.3 Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with ASRAs. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are described in this note. These accounting policies have been consistently applied.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company at exchange rates at the dates of the transactions. Settlement rate established by the

Central Bank of the Republic of Armenia is taken as a currency. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising in translation are recognised in the income statement.

3.2 Financial instruments

The following non-derivative financial instruments are available at the Company:

- Receivables;
- Payables;
- Loans and borrowings;
- Cash and cash equivalents.

Receivables and payables, loans and borrowings are not classified as financial instruments carried at fair value, the modifications to which are reflected in the profit and loss for the period.

Cash and cash equivalents comprise cash on hand and current accounts. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3.2.1 Recognition and initial measurement

The financial instrument is recognized on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the transaction. When a financial asset or financial liability is recognized initially, the Company measures it at fair value plus expenditures directly related to the transaction. Fair value of short term (with less than 6 months of maturity period) receivables and payables is equal to the transaction price, i.e. the nominal amount of monetary assets receivable (payable) against receivables (payables), if the effect of discount is immaterial.

3.2.2 Subsequent measurement

After initial recognition the payables and receivables, loans and borrowings received are measured at amortized cost, using the effective interest method less impairment losses. Amortized cost of a financial asset or financial liability is the amount at which the financial asset or liability was measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount and minus any write-down for impairment or uncollectability. The effective interest method is a method of calculating amortization using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity or the next market-based review date to the current net carrying amount of the financial asset or financial liability.

3.2.3 Derecognition of financial instruments

The Company derecognizes a financial asset when and only when:

a) the contractual rights to the cash flows from the financial asset expire; or

b) it transfers the financial asset and if the transfer qualifies for derecognition in accordance with the IAS39.

Financial liabilities (payables, loans and borrowings received) are written off from the company's balance sheet when and only when it is settled, i.e. when the contractual provisions under the contract have been fulfilled or declared void or expired (limitation of action).

3.3 Equity items

3.3.1 Share issue

Share capital consists nominal value of ordinary shares issued to and entirely paid by shareholders.

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.

3.3.2 Dividends

Dividends are recognized as liabilities in the period when they are declared.

3.3.3 Capital reserve

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.

3.3.4 Calculation of basic earnings per share

Basic earnings per share is calculated by dividing profit or loss by the 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 shares are 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.

3.4 Property, plant and equipment

3.4.1 Recognition and measurement

The cost of an item of property, plant and equipment is recognised as an asset if, and only if:

a) it is probable that future economic benefits associated with the item will flow to the Company; and

b) the cost of the item can be measured reliably.

An item of property, plant and equipment that qualifies for recognition as an asset measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use.

The cost of self-constructed assets includes the cost of materials and direct labour, as well as the corresponding portion of production overheads. The cost of abnormal amounts of wasted material, labour or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset. PPE's in the process of construction, up to bringing it in a working condition for its intended use, are considered as PPE items in progress and are carried at cost.

3.4.2 Subsequent expenditures

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

3.4.3 Subsequent measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.
The transfer values of the assets surrendered from "Artsakh HEK" CJSC to "Artsakh HEK" OJSC during the restructure process (Note 1.1) were taken as a basis for determining the initial costs of the assets.

3.4.4 Depreciation

The depreciable amount of an item of property, plant and equipment is allocated on a systematic basis over its useful life using the straight-line method. The depreciation charge for each period is recognised as an expense unless it is included in the carrying amount of another asset.

The Company allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part.

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

Buildings	20-60 years
Structures	20-60 years
Conveyers	20-50 years
Machinery and equipment	20-60 years
Vehicles	5 years
Production property	5-20 years
Permanent plants	5 years
Other	1-5 years

The residual value and the useful life of an asset is reviewed at each financial year-end and, if expectations differ from previous estimates, the effect of the changes in the accounting estimate in the current and future periods affected by the change is recognised.

3.5 Intangible assets

3.5.1 Definition and recognition of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset, in terms of definition of intangible assets, meets the identification criteria:

a) if the asset is separable from Company for rent, sale, transfer or exchange both individually, and in combination with relevant contract, asset or liability, or
b) if it arises from contractual other legal rights, irrespective of whether these rights are transferable or separable from the company or other rights and liabilities.

An intangible asset is recognised if, and only if:

a) it is probable that the future economic benefits that are attributable to the asset will flow to the Company; and

b) the cost of the asset can be measured reliably.

3.5.2 Measurement of intangible assets

Intangible assets that are acquired by the Company, are measured at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

3.5.3 Amortization

The depreciable amount of an intangible asset is allocated on a systematic basis over its useful life on a straight-line basis. Amortization calculated for each period is recognized as an expense unless it is included in the carrying amount of another asset.
Amortisation of an intangible asset is calculated from the moment since the asset is available for use. All intangible assets of the Company have finite useful life and amortized during the estimate useful life period.
The estimated useful lives are as follows:

- Computer software 10 years
- Rights and licenses 15 years
- Other intangible assets 10 years

3.5.4 Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss when incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

3.6 Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The Company does not have assets received under finance lease.

Lease other than financial lease is operating lease. Assets received under operating lease are not recognized in the Company’s balance sheet.

3.7 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of interchangeable inventories is determined using the weighted average value formula. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Materials intended for use in the course of provision of services and other inventories are not revalued lower than their cost if it is expected that the service for the provision of which they will be used, will be sold at a price equal or higher than the cost.

3.8 Impairment

The carrying amounts of the Company's assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

3.8.1 Assessing recoverable amount

The recoverable amount of accounts receivable are calculated as the present value of the estimated future cash flows discounted at the original effective interest rate. The short-term accounts receivables are not discounted.

Recoverable amount of other assets are determined as maximum of net selling value and value in use. In assessing value in use, the estimated future cash flows are discounted to present value applying the discount rate that best represents the current market value and risks typical to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

3.8.2 Reversal of impairment loss

An impairment loss of accounts receivable is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Impairment loss recognized for other assets are reversed if the assumptions used for assessing recoverable amount is changed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9 Trade and other accounts receivable

Trade and other accounts receivable are measured at cost less impairment loss (bad debt provision). Bad debt provision is created when there is objective indication that the Company will not be able to collect all receivable in due time in accordance to initial receivables term. As the possible impairment indication of accounts receivable are considered: clients' significant financial difficulties, high risk of non-creditworthiness, late repayments. The provision is determined as the difference between asset current value and present value of the estimated future cash flows. Non-collectable receivables are written-off from the provision.

Provision creation, changes and recovery of previously written-off receivables are recognized as expense and income in income statement.

3.10 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short-term employee benefits include wages, salaries short-term compensated absences (such as paid annual leave 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.

3.11 Revenue

3.11.1 Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

a) the amount of revenue can be measured reliably;

b) it is probable that the economic benefits associated with the transaction will flow to the Company.

Revenue from electricity rendered is recognized corresponding to realization per each month. The completion stage for other services is recognized by considering the evaluation of works implemented.

3.11.2 Goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

(a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the Company; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.12 Income taxes

Income tax on current year profit or loss consists of current tax. Current taxes are recognized as an income or expense and are included in the net profit or loss of the period, except to the extent that the taxes arise as a result of an event or a transaction which is recognized directly in equity during the same or another reporting period, in which case current taxes are recognized directly in equity.

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the budget, using the tax rates that have been enacted by the reporting date.

3.13 Finance costs and income

Finance income comprises interest income on bank deposits. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings. Borrowing interests are recognized as expense in profit or loss, excepts when they are capitals, using the effective interest method for the period when they are accrued (executed).

The Company capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

3.14 Operating lease

Lease payments are recognised as an expense on a straight-line basis over the lease period.

3.15 The correction of errors

The amounts of corrections of the prior period errors discovered during the reporting period are included in the determination of reporting period net profit or loss, except to the extent that the errors arise as a result of an event or a transaction which is recognized directly in equity during the same or another reporting period, in which case correction amounts are recognized directly in equity. The comparative information is not restated.

4. Revenue

	2010 AMD'000	2009 AMD'000
On electricity realized	1,614,897	1,073,016
	1,614,897	**1,073,016**

Electricity is realized to one client:

- "ARTSAKHENERGO" CJSC till June 2010,
- "AEG" LTD since June 2010.

5. Cost of sales

	2010 AMD'000	2009 AMD'000
Depreciation	106,271	93,888
Maintenance of plants	54,588	34,069
Salary, wages	97,805	68,505
Social security payments	14,671	10,276
Repair expenses	12,125	3,908
Material expenses	19,111	11,091
Other costs	522	14,475
	305,093	**236,212**

6. Administrative expenses

	2010 AMD'000	2009 AMD'000
Salary	53,410	33,568
Social security payments	7,509	5,122
Depreciation	7,683	3,708
Amortization	793	631
Non reimbursable taxes and duties	12,740	8,457
Traveling and representative expenses	3,612	3,480
Maintenance of PPE	1,408	2,750
Telecommunication expenses	3,223	2,458
Utility and office expenses	18,329	4,665
Operational leases	5,901	-
Banking charges	2,724	2,468
Audit and consulting charges	5,500	1,365
Other	1,803	1,190
	124,635	**69,862**

7. Other operating expenses

	2010 AMD'000	2009 AMD'000
Research and development expenses	8,435	1,693
Charges related to shares	7,847	21,316
Currency exchange transaction charges	5,743	-
Cost of sold inventory	1,523	-
Bad debts write off	1,124	-
Fines, penalties	4	2,977
Other	3,493	1,532
	28,169	**27,518**

8. Other gain/(loss)

	2010 AMD'000	2009 AMD'000
Foreign exchange gain/(loss)	52,649	(58,108)
Other non operational gains	2,273	56
Other non operational losses	(35,958)	(3,503)
	18,964	**(61,555)**

9. Staff reimbursement

	2010 AMD'000	2009 AMD'000
Salary and equivalent payments	151,215	102,073
Social security payments	22,180	15,398
	173,395	**117,471**

The Company's staff average number is 96 during the year 2010 (2009: 77 people).

10. Income tax expense

5% income tax rate is applied on the Company's taxable profit set by the Republic of Nagorno-Karabakh tax legislation (2009 - 5%).

	2010 AMD'000	2009 AMD'000
Current income tax expense	58,573	38,327
	58,573	**38,327**

Effective tax rate comparison

	2010		2009	
	'000 AMD	%	'000 AMD	%
Profit before tax	1,174,467		678,181	-
Income tax calculated applying determined rate	58,723	5	33,909	5
Tax effect of non-taxable income	(19,789)	(2)	(3,657)	(0.5)
Tax effect of non-deductible expenses	19,639	2	8,075	1.2
Income tax expense and effective tax rate	58,573	5	38,327	5.7

Income tax payable

	2010 AMD'000	2009 AMD'000
Opening balance	35,575	6,660
Payment	(64,322)	(9,412)
Current income tax expense	58,573	38,327
Closing balance	**29,826**	**35,575**

11. Property, plant and equipment

Thousand drams

	Land	Buildings	Structures	Conveyers	Machinery equipments	Vehicles	Production property	Perpetual plants	Out-off-use PPE	Construction in Process	Other PPE	Total
Cost												
As at 1 January 2009	**-**	**4,524,315**	**-**	**183,972**	**2,265,588**	**12,233**	**374,586**	**2,874**	**275,642**	**-**	**270**	**7,639,480**
Additions	2,800	1,058	-	-	3,201	96	780	-	441,461	2,829,261	70	**3,278,727**
Deductions	-	-	-	-	-	-	-	-	(689,594)	-	-	**(689,594)**
Reclassifications	-	(1,183,813)	4,708	(181,219)	1,740,938	12,458	(365,563)	-	(27,509)	-	-	-
As at 31 December 2009	**2,800**	**3,341,560**	**4,708**	**2,753**	**4,009,727**	**24,787**	**9,803**	**2,874**	**-**	**2,829,261**	**340**	**10,228,613**
Additions	7,864	128,159	7,757	-	26,472	18,071	7,968	-	15,210	3,676,231	2,724	3,890,456
Deductions	-	(17)	-	(82)	(2,042)	-	(2,320)	(1,388)	-	-	(25)	(5,874)
Reclassifications	-	327,530	202,653	6,311	376,432	-	-	-	-	(912,926)	-	**-**
As at 31 December 2010	**10,664**	**3,797,232**	**215,118**	**8,982**	**4,410,589**	**42,858**	**15,451**	**1,486**	**15,210**	**5,592,566**	**3,039**	**14,113,195**
Accumulated depreciation												
As at 1 January 2009	**-**	**1,395,460**	**-**	**51,465**	**702,287**	**1,924**	**120,380**	**384**	**-**	**-**	**5**	**2,271,905**
Depreciation for year	-	41,352	124	105	50,536	3,330	1,521	575	-	-	53	**97,596**
Reclassifications	-	(371,514)	1,165	(49,134)	530,740	5,984	(117,241)	-	-	-	-	**-**
As at 31 December 2009	**-**	**1,065,298**	**1,289**	**2,436**	**1,283,563**	**11,238**	**4,660**	**959**	**-**	**-**	**58**	**2,369,501**
Depreciation for year	-	47,923	1,503	175	55,378	5,643	2,133	452	-	-	747	**113,954**
Deductions	-	(13)	-	(65)	(1,570)	-	(1,504)	(602)	-	-	(26)	(3,780)
As at 31 December 2010	**-**	**1,113,208**	**2,792**	**2,546**	**1,337,371**	**16,881**	**5,289**	**809**	**-**	**-**	**779**	**2,479,675**
Current value												
As at 1 January 2009	**-**	**3,128,855**	**-**	**132,507**	**1,563,301**	**10,309**	**254,206**	**2,490**	**275,642**	**-**	**265**	**5,367,575**
As at 31 December 2009	**2,800**	**2,276,262**	**3,419**	**317**	**2,726,164**	**13,549**	**5,143**	**1,915**	**-**	**2,829,261**	**282**	**7,859,112**
As at 31 December 2010	**10,664**	**2,684,024**	**212,326**	**6,436**	**3,073,218**	**25,977**	**10,162**	**677**	**15,210**	**5,592,566**	**2,260**	**11,633,520**

a) During the reporting year, the increases of PPE consist:

Addition nature	Amount '000 AMD
Construction of small hidroelectric power stations	1,584,988
Construction of hidroelectric power stations	472,512
Acquisition of hydro generators	849,965
Capitalised borrowing costs on qualified assets	545,221
Acquisition and renovation of administrative building	154,992
Other capitalizations and acquisitions	282,778
Total	**3,890,456**

12. Intangible assets

thousand drams

	Patents, licenses	Accounting software	Other	Total
Cost				
As at 1 January 2009	**2,000**	**255**	**18,142**	**20,397**
Additions	2000	-	1,452	3,452
Deductions	-	-	(16,750)	(16,750)
As at 31 December 2009	**4,000**	**255**	**2,844**	**7,099**
Additions	2,000	-	-	2000
Deductions	-	-	(2,844)	(2,844)
As at 31 December 2010	**6,000**	**255**	**-**	**6,255**
Accumulated amortization				
As at 1 January 2009	**100**	**9**	**314**	**423**
Amortization for the year	218	26	387	631
Deductions	-	-	(419)	(419)
As at 31 December 2009	**318**	**35**	**282**	**635**
Amortization for the year	393	116	284	793
Deductions	-	-	(566)	(566)
As at 31 December 2010	**711**	**151**	**-**	**862**
Curent value				
As at 1 January 2009	**1,900**	**246**	**17,828**	**19,974**
As at 31 December 2009	**3,682**	**220**	**2,562**	**6,464**
As at 31 December 2010	**5,289**	**104**	**-**	**5,393**

13. Inventory

	31.12.2010 AMD'000	31.12.2009 AMD'000
Materials	17,576	17,435
Short-term items	6,484	1,693
	24,060	**19,128**

14. Trade and other receivables

	31.12.2010 AMD'000	31.12.2009 AMD'000
On electricity realized*	214,766	369,091
On VAT	353,043	133,982
On deferred VAT	9,476	931
Other	138	173
	577,423	**504,177**

15. Cash and cash equivalents

	31.12.2010 AMD'000	31.12.2009 AMD'000
Bank accounts in AMD	547,741	55,879
Cash on hand	726	448
	548,467	**56,327**

16. Equity items

16.1. Share Capital

	31.12.2010	31.12.2009
Number of ordinary shares (unit)	7,362,074	5,962,074
Nominal value (AMD)	1,000	1,000
	7,362,074	**5,962,074**

The declared number of the Company's shares is 7,737,926 ordinary shares.

During the 2010, based on the resolution dated 20.08.2010 of the Company's Board of Directors 1,400,000 ordinary shares with nominal value of 1,000 AMD were issued and underwritten by "Armswissbank" CJSC.

As at 31.12.2010 the number of shareholders is 1,178 people/organizations.

The shares are distributed among the following shareholders:

	31.12.2010		31.12.2009	
	unit	**%**	**unit**	**%**
The Government of NKR	5,100,000	69.3	5,100,000	85.5
"Armswissbank" CJSC	160,699	2.2	366,265	6.1
"Armswissbank" CJSC nameholders	1,002,905	13.6	-	-
Sanasar Beglaryan	519,100	7.1	-	-
Sofi Sargsyan	150,000	2.0	100,000	1.7
"Artsakh Freedom-strugglers Union" NGO	100,000	1.4	100,000	1.7
"Artsakhbank" OJSC	80,365	1.1	-	-
Other (less 1%)	249,005	3.4	295,809	5.0
Total	**7,362,074**	**100.0**	**5,962,074**	**100.0**

16.2. Share premium

Represents difference between the proceeds from and nominal value of shared issues.

	2010	2009
Opening balance	**43,104**	**-**
Share issue		
Proceeds from share issue (a)	*1,554,000*	*905,178*
Nominal value (Note 16.1)	*(1,400,000)*	*(862,074)*
	154,000	43,104
Underwriteing fees	(17,040)	-
Reclassification of previous year underwriting fees	(21,316)	-
Closing balance	**158,748**	**43,104**

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(a) Issue proceeds for the current year share issue was 1,110 AMD per share (proceeds for 2009 was 1,050 AMD).

16.3. Capital reserve

Based on the resolution dated 27.04.2010 of the Company's Shareholders General Meeting transfer to capital reserve equal to the amount of 6.82% of net profit of year 2009 (43,645 thousand AMD) was made.

16.4. Dividends

Based on the resolution dated 27.04.2010 of the Company's Shareholders General Meeting dividends based on financial results of 2009 was declared in the total amount of 596,207 thousand drams (100 AMD per share).

16.5. Basic earnings per share

	31.12.2010	31.12.2009
Net profit for the year (‘000 AMD)	1,115,894	639,854
Weighted average number of shares (units)	6,034,951	5,629,054
Basic earnings per share	**185**	**114**

17. Loans and borrowings

Non current loans and borrowings	**31.12.2010**	**31.12.2009**
From banks	1,263,034	1,312,793
From credit institutions	1,120,752	-
From other entities	144,063	170,000
	2,527,849	**1,482,793**
Current loans and borrowings		
From banks	538,333	368,443
From other entities	145,376	134,472
From the Government of NKR	-	206,500
From physical persons	734,149	-
	1,417,858	**709,415**

a) During the reporting year the loans and borrowings were received at 12%-18% annual interest. The average annual interest was 16%.

b) Borrowing from other organizations and physical persons are not secured by collaterals or guaranties.

c) All loans from banks and credit institutions are secured by shares collaterals and/or State budget guaranties issued by the Government of the NKR.

Loans and borrowing movement

Lender	Balance 01.01.2009	2009 movement received	2009 movement repaid	2009 movement FX loss/(gain)	Balance 31.12.2009	2010 movement received	2010 movement repaid	2010 movement FX loss/(gain)	Balance 31.12.2010
Banks	**509,179**	1,957,182	(889,622)	104,497	**1,681,236**	726,871	(529,834)	(76,906)	**1,801,367**
Credit institutions	**-**	-	-	-	**-**	1,129,817	-	(9,065)	**1,120,752**
Other entities	**130,000**	433,492	(260,000)	980	**304,472**	90,930	(101,893)	(4,070)	**289,439**
The Government of NKR	**240,500**	369,000	(403,000)	-	**206,500**	150,000	(356,500)	-	**-**
Physical persons	**-**	-	-	-	**-**	750,773	-	(16,624)	**734,149**
Total principal	**879,679**	**2,759,674**	**(1,552,622)**	**105,477**	**2,192,208**	**2,848,391**	**(988,227)**	**(106,665)**	**3,945,707**
Interest	**-**	183,616	(183,616)	**-**	**-**	545,221	(545,221)	**-**	**-**
Total	**879,679**	**2,943,290**	**(1,736,238)**	**105,477**	**2,192,208**	**3,393,612**	**(1,533,448)**	**(106,665)**	**3,945,707**

18. Trade and other payables

	31.12.2010 AMD'000	31.12.2009 AMD'000
On acquisition on PPE	176,050	-
Trade payables	3,134	6,663
On salary	-	67
On employees' short-term reimbursements	5,343	-
On social security payments	4,265	-
On taxes, except income tax	3,097	2,963
Other	1,339	103
	193,228	**9,796**

19. Financial instruments

In the ordinary course of the business the Company exposed to credit, interest rate and foreign currency risk.

19.1. Credit risk

Trade receivable of the Company in the amount of 214,766 thousand dram represents the receivable from the sole client of the electricity realized (Note 14). The Company does not request guaranties (collaterals) on receivables.

The Company did not create bad debt reserve. The Company has the policy to provide its services to clients with proper credit history.

As at 31.12.2010 the aging of the trade receivable does not exceed 90 days.

During the reporting year, the Company has written-off bad debt in the amount of 1,124 thousand dram.

19.2 Interest rate risk

The Company has loans and borrowings received on fixed interest term. The disclosure on those loans and borrowings are presented in Note 17th. The Company is exposed to interest risk (fair value) on those loans. The Company has no policy to assess exposure to fixed or floating rate loans.

19.3 Currency risk

The Company's exposure to foreign exchange rate fluctuation is due to loans and borrowings received as well as accounts payables which are payable in the currency different from the functional currency. The disclosure on those loans and borrowings are presented in Note 17th and on payables on Note 18th. The management has not hedged the foreign currency exposure.

As at 31.12.2010, the foreign currency liabilities are follows:

Foreign currency liabilites	USD '000 AMD equivalent	EURO '000 AMD equivalent	Total '000 AMD equivalent
Loans and borrowings	2,597,608	118,434	2,716,042
Accounts payable	-	121,733	121,733
Total	**2,597,608**	**240,167**	**2,837,775**

As at December 31 the following settlement rates are issued for the USD and EURO by the Central Bank of the Republic of Armenia:

	31.12.2010 AMD	**31.12.2009** AMD
1 USD rate	363.44	377.89
1 EURO rate	481.16	542.23

Sensitivity analysis

The 10% of depreciation of the Armenian Dram against the USD and EURO in comparison to that of 31.12.2010 will reduce the share capital by 283,778 thousand drams. This analysis assumes that all the other variables, particularly the interest rates will remain unchanged.

The 10% of appreciation of the Armenian Dram against the USD and EURO in comparison to that of 31.12.2010 would have the same amount but an opposite impact on the above mentioned amount based on the assumption that all the other variables would stay unchanged.

20. Contingencies

20.1 Insurance

The insurance system in the Republic of Nagorno-Karabakh is in development phase. The Company does not have coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position

20.2 Litigation

As at 31 December 2010 no material suits have been brought against the Company.