

**Armenia Renewable Resources and
Energy Efficiency Fund**

**Financial Statements
and
Independent Auditor's Report
for the year ended 31 December 2014**

**YEREVAN
MARCH 2015**

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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT N 10

*On the financial statements of Armenia Renewable Resources and
Energy Efficiency Fund
for the year ended 31 December 2014*

To the Management of the Armenia Renewable Resources and Energy Efficiency Fund

We have audited the accompanying financial statements of the Armenia Renewable Resources and Energy Efficiency Fund (the Fund) which comprise the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in net assets and statement of 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

The Fund's Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 reasonable 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statement 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 Fund's internal control. An audit also includes 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.

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

Opinion

In our opinion the accompanying financial statements present fairly in all material respects the financial position of the Fund as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

SOS-Audit LLC
13 March 2015



Manvel Ghazaryan
Manvel Ghazaryan
Director

Nazik Chitchyan
Nazik Chitchyan
Auditor

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Armenia Renewable Resources and Energy Efficiency Fund
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2014

	Note	2014	2013
		'000 AMD	'000 AMD
Income from loans issued	5	63,302	117,458
Interest expense	7	(28,615)	(27,874)
Income from energy services rendered contracts	6	2,902	784
Cost of services		(995)	-
Income from grants	8	136,054	175,954
Direct costs on projects	9	(136,054)	(178,224)
Direct costs on projects (from Fund's means)	9	(52,532)	-
Administrative expenses	10	(143,895)	(177,284)
Other income		16,446	17,811
Results from operating activities		(143,387)	(71,375)
Interest income from cash and cash equivalents and term deposits with banks		87,207	96,057
Impairment losses on loans issued	13	(17,323)	(2,134)
Net foreign exchange (loss)/gain		(13,476)	5,839
Profit/(loss) before income tax		(86,979)	28,387
Income tax expense	11	(24,792)	(34,927)
Profit / (loss) for the year		(111,771)	(6,540)
Other comprehensive income		-	-
Total comprehensive result for the year		(111,771)	(6,540)

These financial statements were approved by the management on 13 March 2015 and were signed on its behalf.

Tamara Babayan
Director



Roza Manucharyan
Financial Manager

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 34.

Armenia Renewable Resources and Energy Efficiency Fund
Statement of Financial Position
as at 31 December 2014

	Note	31.12.2014	31.12.2013
		'000 AMD	'000 AMD
ASSETS			
Non-current assets			
Property and equipment	12	35,651	22,474
Intangible assets	12	2,167	2,228
Loans issued	13	614,181	875,776
Total non-current assets		651,999	900,478
Current assets			
Inventories		645	497
Income tax prepayment		4,159	-
Trade and other receivables	14	32,359	20,179
Prepayments	16	171,822	20,014
Loans issued	13	533,405	750,173
Term deposits with banks	15	2,199,656	-
Cash and cash equivalents	17	1,064,397	2,578,857
Total current assets		4,006,443	3,369,720
Total assets		4,658,442	4,270,198
LIABILITIES			
Non-current liabilities			
Borrowings received	18	4,017,038	3,706,554
Grants related to assets	20	259,570	172,584
Total non-current liabilities		4,276,608	3,879,138
Current liabilities			
Grants related to income	19	139,912	58,539
Borrowings received		25,533	-
Trade and other payables	21	60,477	69,303
Current reserves	22	19,963	10,230
Current tax liabilities		-	5,268
Total current liabilities		245,885	143,340
Total liabilities		4,522,493	4,022,478
Net assets		135,949	247,720
Total net assets and liabilities		4,658,442	4,270,198

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 9 to 34.

Armenia Renewable Resources and Energy Efficiency Fund
Statement of Changes in Net Assets
for the year ended 31 December 2014

	<u>Net assets</u>
	<u>'000 AMD</u>
Balance at 1 January 2013	254,260
Total result for the year	(6,540)
Balance at 31 December 2013	247,720
Total result for the year	(111,771)
Balance at 31 December 2014	135,949

The statement of changes in net assets attributable to the founder is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 34.

Armenia Renewable Resources and Energy Efficiency Fund
Statement of Cash Flows
for the year ended 31 December 2014

	Note	2014	2013
		'000 AMD	'000 AMD
Cash flows from operating activities			
Profit / (loss) for the year		(111,771)	(6,540)
<i>Adjustments for:</i>			
Depreciation and amortization		17,333	4,955
Impairment losses		17,323	2,134
Income from loans issued		(63,302)	(117,458)
Interest expense		28,615	27,874
Interest income from cash and cash equivalents and term deposits		(87,207)	(96,057)
Net foreign exchange loss/(gain)		13,476	(5,839)
Current tax expense		24,792	34,927
		(160,741)	(156,004)
Change in inventories		(148)	334
Change in trade and other receivables, prepayments		(163,988)	(2,279)
Change in trade and other payables		(8,826)	29,803
Change in grants		168,359	217
		(165,344)	(127,929)
Income tax paid		(34,219)	(44,864)
Redemption of loans issued		103,017	164,940
Interest proceeds from loans issued		63,302	117,458
Interest paid		(28,096)	(32,790)
Net cash used in operating activities		(61,340)	76,815
Cash flows from investing activities			
Payments for acquisition of property and equipment and intangible assets		(30,449)	(20,501)
Investment/(redemption) of term deposits with banks		(2,199,656)	1,929,070
Redemption of loans issued to PFI		601,360	-
Interest received		166,241	266,718
Net cash received/(used) in investing activities		(1,462,504)	2,175,287
Cash flows from financing activities			
Net receipt/(return) of borrowings related to projects		22,860	9,332
Net cash received/(used) from financing activities		22,860	9,332
Net (decrease)/increase in cash and cash equivalents		(1,500,984)	2,261,434
Effect of exchange rate changes on cash and cash equivalents		(13,476)	5,839
Cash and cash equivalents at 1 January		2,578,857	311,584
Cash and cash equivalents at 31 December		1,064,397	2,578,857

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 9 to 34.

1 Background

(a) Reporting entity

Armenia Renewable Resources and Energy Efficiency Fund (the "Fund") was established by the Government of the Republic of Armenia (the "Government") resolution N 799 dated 28 April 2005. The Fund is a non-for-profit organization. The founder of the Fund is the Republic of Armenia (the "Founder").

The registered address of the Fund is: 1 Melik Adamyan Street, Yerevan, Republic of Armenia.

The Ministry of Finance of the Republic of Armenia (the "MoF") has signed loan agreements during 2005 and 2006 (the "Loan Agreements") with the International Development Association (the "IDA") and received loans under the Urban Heating Project (the "UHP") and Renewable Energy Project (the "REP"). For the purpose of the implementation of those projects in compliance with the Loan Agreements the MoF must provide the loans received to the Participating Financial Institutions (the "PFI"s) and non-financial institution intermediaries in order to finance sub-loans provided by PFIs to qualifying beneficiaries.

The Fund was established in order to manage and administer the above mentioned projects and the project fund activities are performed through the bank accounts of the Fund. The MoF signed agreements with the Fund on implementation of the UHP and REP programs (the "Agency agreements").

For the purpose of the implementation of the programs, the Fund has established incremental and revolving accounts. The incremental account accumulates the initial funds transferred to the Fund for the realisation of the projects, whereas the revolving account accumulates the funds repaid back to the Fund by the PFIs and non-financial institution intermediaries. For the loans received the PFIs pay interest to the Fund in accordance with the agreements with the Fund on loans issued. Meanwhile, the Fund pays part of the interest received from PFIs to the Ministry of Finance of the RA based on the Agency agreements (see note 7). The margin between the interest received by the Fund and interest paid to the MoF for the program funds is intended to finance the Fund's expenses and increase program financing.

The objectives of the Fund are to:

- a) facilitate investments in the energy efficiency and renewable energy sectors;
- b) promote the development of Armenian energy efficiency and renewable energy market;
- c) contribute to the reduction of adverse anthropogenic impact on the environment and human health;
- d) develop mechanisms aimed at increasing energy safety and reliability of energy system;
- e) when respective authority is received from the MoF, initiate credit and grant programs to promote the sector development on behalf of the MoF based on the agreements signed with the MoF.

On 30 July 2012 a new Agency agreement was signed between the Fund and the MoF, pursuant to resolution 174-N of the Government of the Republic of Armenia dated 16 February 2012, whereby the Fund agrees to implement Energy Efficiency and Renewable Energy Financing Project (the "EEREFP") utilising the funds received as at the date of agreement for UHP and REP projects under Agency agreements.

The EEREFP envisages the following components:

- | | |
|-------------|---|
| Component 1 | Program funds are provided to the PFIs to finance investments by qualifying beneficiaries in energy efficiency and renewable energy projects. |
|-------------|---|

Component 2 The Fund makes energy efficiency investments in public buildings.

In 2014 the Fund implemented the following projects:

- “Energy Efficiency project”, which is financed under the GEF Grant TF 012163 Agreement signed between the International Bank for Reconstruction and Development acting as an implementing agency of Global Environment Facility and the Republic of Armenia on 20 April 2012. The objective of the project is to reduce energy consumption in social and other public facilities through the removal of barriers to the implementation of energy efficiency investments in the public sector.
- “Preparation of the scaling-up renewable energy program investment plan project”, which is financed under the GEF Grant TF 014245 Letter-agreement signed between the International Bank for Reconstruction and Development acting as an implementing agency of Global Environment Facility and Armenia Renewable Resources and Energy Efficiency Fund on 19 April 2013. The objective of the project is to elaborate the investment plan of scaling-up renewable energy project.
- “Black Sea Basin 2007-2013 buildings energy efficiency plan project”, which is financed by European Union under Partnership agreement signed between mayor’s office of Kavala and Armenia Renewable Resources and Energy Efficiency Fund on 26 September 2012. The objective of the project is to improve the system of buildings energy efficiency and to share know-how in energy sphere.
- Geothermal Exploratory Drilling Project
The energy safety concept of the Republic of Armenia (in 2013), Development strategy of Armenia and National safety strategy tend to develop own fossil renewable energy resources. The objective of the project with the support of the World Bank (Grant Agreement TF 18000) is to install exploratory drilling in Qarqar geothermal area, which is defined by the Government of the Republic of Armenia as one of priority projects for renewable resources in the Renewable energy scaling-up project investment plan.

(b) Armenian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 "Loans issued" and note 17 "Borrowings from the MoF" - fair value of loans issued and borrowings from the MoF at initial recognition.

3 Significant accounting policies

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

(a) Foreign currency

(i) Foreign currency transactions

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

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

(b) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise loans issued, trade and other receivables, term deposits with banks, cash and cash equivalents.

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

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

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

The Fund classifies all non-derivative financial assets into loans and receivables category.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see note 3(f)(i)).

Loans and receivables category comprise the following classes of assets: loans issued as presented in note 13, trade and other receivables as presented in note 14, term deposits with banks as presented in note 15 and cash and cash equivalents as presented in note 17.

Cash and cash equivalents

Cash and cash equivalents comprise current accounts with banks and special accounts with Central Treasury.

(ii) Non-derivative financial liabilities

The Fund initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

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

Other financial liabilities comprise borrowings from the MoF and trade and other payables.

(c) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Fund, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use. Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

- | | |
|--------------------------------|---------|
| • computer and other equipment | 4 years |
| • motor vehicles | 5 years |
| • fixtures and fittings | 5 years |

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

(d) Intangible assets

(i) Recognition and measurement

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 5 years for software.

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

(e) Leased assets

Assets leased under operating lease are not recognised on the Fund's statement of financial position.

(f) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Fund on terms that the Fund would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Fund, economic conditions that correlate with defaults.

Loans and receivables

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

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

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

(ii) Non-financial assets

The carrying amounts of the Fund's non-financial 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 related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

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

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

(g) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Fund 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.

(h) Revenue

Government grants

Government grants are recognised initially as grants related to income at fair value when there is reasonable assurance that they will be received and that the Fund will comply with the conditions associated with the grant and are then recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants that compensate the Fund for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

In the framework of Energy efficiency project the grant provided within expenditure category "Investments within energy efficiency under part A of the project" of 2.2 point of Additional agreement for provision of the Grant from GEF for the Energy efficiency project signed between the MoF of RA and the Fund on 11 July 2012 is accounted at fair value as a grant related to assets.

(i) Other expenses

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(j) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings.

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

(k) Income tax

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

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

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

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

The Fund believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Fund to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

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

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

(l) New Standards and Interpretations not yet adopted

The Foundation has not applied the following new and revised IFRSs that have been issued but are not effective. The Foundation has not yet determined the potential effect of the new and revised standard on its financial position and performance.

- IFRS 9, *Financial Instruments*, (issued on November 2009, revised on July 2014) is effective for annual periods beginning on or after 1 January 2015, except for revisions done on July 2014, which are effective from 1 January 2018. IFRS 9 (revised on July 2014) will replace IAS 39, *Financial Instruments: Recognition and Measurement*, at the date of its being effective.

IFRS 9 introduces new classification and measurement requirements for financial assets, which replace the classification and measurement requirements previously included in IAS 39, according to which all financial assets to be subsequently measured at amortised cost or fair value. Specifically:

- ✓ A debt investments that (i) is held within a business model whose objective is to collect the contractual cash flows, and (ii) has contractual cash flows that are solely payments of principal and interest on the principal outstanding, must be measured at amortised cost, unless the asset is designated at fair value through profit and loss (FVTPL) under the fair value option.
- ✓ A debt investments that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and (ii) has contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, must be measured at fair value through other comprehensive income (FVTOCI), unless the asset is designated FVTPL under the fair value option.
- ✓ All other debt investments must be measured at FVTPL.
- ✓ All equity investments are measured at FVTPL, except that if an equity investment is not held for trading, and irrevocable election can be made at initial recognition to measure the investment at FVTOCI (however, dividend income is recognized in profit and loss).

The impairment model under IFRS 9 reflects expected credits losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

- IFRS 15, *Revenue from contracts with customers*, (issued on May 2014) is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes the following revenue Standards and Interpretations upon its effective date:

- ✓ IAS 18, *Revenue*,
- ✓ IAS 11, *Construction Contracts*,
- ✓ IFRIC 13, *Customer Loyalty Programmes*,
- ✓ IFRIC 15, *Agreement for the Construction of Real Estate*,
- ✓ IFRIC 18, *Transfers of Assets from Customers*,
- ✓ SIC 31, *Revenue-Barter Transactions Involving Advertising Services*.

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange of consideration. Unlike IAS 18, the recognition and measurement of interest income and dividend income from debt and equity instruments are no longer within the scope of IFRS 15.

IFRS 15 has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

- Amendments to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*, - *Clarification of Acceptable Methods of Depreciation and Amortization* (issued on May 2014) is effective for annual periods beginning on or after 1 January 2016. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset (which can be rebutted in two limited circumstances).

- Amendments to IAS 16, *Property, Plant and Equipment*, and IAS 41, *Agriculture*, - *Bearer Plants* (issued on June 2014) is effective for annual periods beginning on or after 1 January 2016. The

amendments define a bearer plant (mature bearer biological assets, which no longer undergo significant biological transformation and are used solely to grow produce) and require biological assets that meet its definition to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16. The producing growing on bearer plants continues to be accounted for in accordance with IAS 41.

4 Determination of fair values

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

(a) Loans issued and trade and other receivables

The fair value of loans issued and trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Non-derivative financial liabilities

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

5 Income from loans issued

The income from loans issued represents interest receivable from the PFIs and non-financial institution intermediaries.

6 Income from Energy supply agreements

The income from services rendered under energy supply agreements signed in the framework of Energy efficiency project and Agency agreement is recognised as an income from energy supply.

7 Interest expense

Interest expense represents interest payable to the MoF on the funds received under the agreement of EEREFP program at an annual rate of 0.75%.

8 Income from grants

	'000 AMD 2014	'000 AMD 2013
Grants related to income	131,149	175,698
Grants related to assets	4,905	256
	136,054	175,954

9 Costs directly related to projects

	'000 AMD 2014	'000 AMD 2013
Research costs	183,681	178,224
Depreciation	4,905	-
	188,586	178,224

The table below shows the costs of project by financing sources: the portion of the costs directly related to project costs financed by grants received and the portion financed by the Fund means:

	Financing sources			
	Grants		Fund means	
	2014	2013	2014	2013
	'000 AMD	'000 AMD	'000 AMD	'000 AMD
Energy efficiency project	89,270	66,818	30,492	-
Renewable energy scaling-up project investment plan buildings project of the Global Environment Fund	18,092	106,228	14,429	-
Black Sea Basin 2007-2013 buildings energy efficiency plan joint operational program	14,360	5,178	1,050	-
Geothermal exploratory drilling project	14,332	-	6,561	-
	136,054	178,224	52,532	-

10 Administrative expenses

	'000 AMD	'000 AMD
	2014	2013
Salaries	81,798	64,166
Consultants fees	-	23,799
Rent	13,332	13,332
Depreciation and amortization	12,428	4,955
Audit and professional services	8,132	7,710
Consulting	8,110	24,256
Public relations and communications	6,278	2,646
Utilities	1,574	1,903
Transportation and vehicle maintenance	2,750	3,458
Trainings and workshops	-	731
Other	9,493	30,328
	143,895	177,284

11 Income tax expense

	'000 AMD	'000 AMD
	2014	2013
Current tax expense	24,792	34,927

Reconciliation of effective tax rate:

	2014		2013	
	'000 AMD	%	'000 AMD	%
Profit before income tax	(86,979)		28,387	
Tax using the Fund's tax rate	(17,396)	20	5,677	20
Non-deductible expenses	68,248	(78)	72,800	256
Non-taxable income	(26,060)	30	(43,550)	(153)
	24,792	(28)	34,927	123

Part of activities of the Fund is exempt from income tax. Income tax is calculated only on interest income generated from loans issued and deposits. Deductible expenses are interest expense and administrative expenses directly attributable to generation of taxable income.

No deferred tax assets and liabilities are recognized as there are no temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes exist.

12 Property and equipment and intangible assets

'000 AMD

	Computer and other equipment	Vehicles	Fixtures and fittings	Intangible assets	Total
Cost					
Balance at 1 January 2013	42,005	22,771	9,165	8,520	82,461
Additions	20,501	-	-	-	20,501
Disposals	(628)	-	(114)	-	(742)
Balance at 31 December 2013	61,878	22,771	9,051	8,520	102,220
Additions	12,657	14,670	1,763	1,359	30,449
Disposals	(5,595)	(7,971)	-	-	(13,566)
Balance at 31 December 2014	68,940	29,470	10,814	9,879	119,103
Depreciation and amortization					
Balance at 1 January 2013	40,149	22,771	5,293	5,092	73,305
Depreciation/amortization for the year	3,459	-	296	1,200	4,955
Disposals	(628)	-	(114)	-	(742)
Balance at 31 December 2013	42,980	22,771	5,475	6,292	77,518
Depreciation/amortization for the year	13,445	2,078	388	1,422	17,333
Disposals	(5,595)	(7,971)	-	-	(13,566)
Balance at 31 December 2014	50,830	16,878	5,863	7,714	81,285
Carrying value					
At 1 January 2013	1,856	-	3,872	3,428	9,156
At 31 December 2013	18,898	-	3,576	2,228	24,702
At 31 December 2014	18,110	12,592	4,951	2,165	37,818

As at reporting date the cost of fully depreciated property and equipment comprised AMD 56,684 thousand (2013: AMD 60,018 thousand).

Depreciation and amortization costs assignment is as follows: administrative expenses: AMD 12,428 thousand, direct expenses on projects: AMD 4,905 thousand.

13 Loans issued

	'000AMD 31.12.2014	'000AMD 31.12.2013
Loans to PFIs:		
- not overdue	559,907	1,325,266
Loans to non-financial institution intermediaries (including investments in public facilities within the framework of Energy efficiency project)		
- not overdue (investments in public facilities)	587,679	299,371
- not overdue	-	1,312
- overdue more than 360 days	109,681	92,358
Gross loans issued	1,257,267	1,718,307
Impairment allowance	(109,681)	(92,358)
Net loans issued	1,147,586	1,625,949

Total gross loans issued to PFIs and direct beneficiaries at year end were as follows at the reporting date exchange rates:

Borrower/Program	Currency	Nominal interest rate	Year of maturity	31.12.2014		31.12.2013	
				Face value	Carrying amount	Face value	Carrying amount
ACBA-Credit Agricole Bank cjsc/UHP	AMD	5.9%-11.4%	2012-2016	463,000	463,000	1,049,450	1,049,450
Ameriabank cjsc/ REP	USD	2.5%-6.4%	2012-2017	96,907	96,907	275,816	275,816
Non-financial institution intermediaries/UHP	USD	5%	2014	17,896	17,896	15,284	15,284
Non-financial institution intermediaries/UHP	USD	5%	2015	7,333	7,333	6,262	6,262
Non-financial institution intermediaries/UHP	USD	5%	2020	84,452	84,452	72,124	72,124
Investments in public facilities	AMD	0%	2013-2022	587,679	587,679	299,371	299,371
				1,257,267	1,257,267	1,718,307	1,718,307

In the reporting period the Fund received a loan from MoF of RA and issued it to "Rural Areas Economic Development PIU" State Institution as loan issue precondition. The loan balance at the end of the reporting period is AMD 243,242 thousand (2013: AMD 266,103 thousand). In the statement of financial position these received and issued loans set off as it is legally acceptable for the Fund to set off financial assets and liabilities.

(a) Interest rates

The nominal interest rates presented in the table above are determined for each tranche of the loans issued and are fixed until maturity of the given tranche.

Management estimates that the fair values of loans issued are not different from loaned amounts at initial recognition as these loans are provided in a separate market segment which is different from the commercial Loans issued market.

(b) Key assumptions and judgments for estimating the loan impairment

The Fund's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The PFIs have been transacting with the Fund for over six years, and the Fund has no losses occurred on that transaction.

The Fund establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans issued.

Impairment losses

The movements in the allowance for impairment during the years ended 31 December 2014 and 31 December 2013 in respect of loans issued were as follows:

	'000 AMD 2014	'000 AMD 2013
Balance at the beginning of the year	92,358	90,224
Net charge for the year	17,323	2,134
Balance at the end of the year	109,681	92,358

At 31 December 2014, an impairment allowance of AMD 109,681 thousand (2013: AMD 92,358 thousand) relates to four (2013: four) non-financial institution intermediaries that have financial difficulties and have overdue balances for more than 360 days.

(c) Investments in public facilities within Energy efficiency project

On 30 July 2012 pursuant to resolution 174-N of the Government of the Republic of Armenia dated 16 February 2012 and according to Agency agreement between the Fund and MoF of RA dated 30 July 2012 the Fund contributed in public facilities through energy efficiency events. The project assessment, organisation and works of energy efficiency events tender as well as further implementation of the project were realised by the Fund. Simultaneously with an agreement with contractor an energy efficiency supply agreement is signed with beneficiary. The agreement states the payment schedules of the energy efficiency events and services rendered by the Fund under this agreement (the payments on energy supply are discussed with beneficiaries).

14 Trade and other receivables

	'000 AMD 31.12.2014	'000 AMD 31.12.2013
Receivable interests from PFIs on program loans	14,295	17,191
Receivable grants	12,925	-
Receivables from energy services	680	234
Prepayments to state budget	1,489	-
Other	2,970	2,754
	32,359	20,179

The Fund's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

15 Term deposits with banks

Bank	Currency	Nominal Interest	Redemption date	31.12.2014		'000 AMD 31.12.2013	
				Nominal amount	Carrying value	Nominal amount	Carrying value
HSBC Bank Armenia CJSC	AMD	8%	2015	719,975	719,975	-	-
HSBC Bank Armenia CJSC	USD	3.5%	2015	1,479,681	1,479,681	-	-
				2,199,656	2,199,656	-	-

The Fund's exposure to credit and currency and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

Concentration of term deposits with banks

As at 31 December 2014 the Fund has deposits in HSBC Bank Armenia CJSC with 6 months of maturity date. As at 31 December 2013 the Fund didn't have term deposits.

16 Advances given

	'000 AMD 31.12.2014	'000 AMD 31.12.2013
Advances for construction work	168,405	15,200
Rent	3,333	3,000
Other	84	1,814
	171,822	20,014

17 Cash and cash equivalents

	'000 AMD 31.12.2014	'000 AMD 31.12.2013
Current accounts in bank	659,729	2,280,185
Special accounts in Central Treasury- agency agreements	257,342	224,962
Special accounts in Central Treasury- grant agreements	80,625	57,067
Cash in transfer	-	16,643
Cash equivalents	66,701	-
Cash and cash equivalents	1,064,397	2,578,857

Cash equivalents represent term deposits within 3 months of maturity date in HSBC bank Armenia CJSC, which is due on 17 January 2015.

18 Borrowings from the MoF

Terms and conditions of loans received from the MoF were as follows:

				'000 AMD			
				31 December 2014		31 December 2013	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Borrowings from the MoF of RA on Energy efficiency and renewable resources project	AMD	0.75%	2045	1,740,568	1,740,568	1,740,568	1,740,568
Borrowings from the MoF of RA on Energy efficiency and renewable resources project	USD	0.75%	2045	2,302,003	2,302,003	1,965,986	1,965,986
Total interest-bearing liabilities				4,042,571	4,042,571	3,706,554	3,706,554

In July 2012 a new agreement was signed by the Ministry of Finance of the Republic of Armenia and the Fund. All the outstanding balance of the borrowings received by the Fund as at the date of the agreement from the MoF were consolidated into one borrowing for new Energy Efficiency project. Per new agreement the funds received bear an interest rate of 0.75%, which is payable semiannually. The funds are repayable to the MoF in installments starting from 2015 until 2045.

Management estimates that the fair values of borrowings from the MoF are not different from loaned amounts at initial recognition as these loans are provided in a separate market segment which is different from the commercial Loans issued market.

The Fund's exposure to currency and liquidity risk related to borrowings from the MoF is disclosed in note 23.

19 Grants related to income

	'000 AMD 31.12.2014	'000 AMD 31.12.2013
Current	139,912	58,539

Movement in current grants related to income is as follows:

	'000 AMD 2014	'000 AMD 2013
Balance at 1 January	58,539	58,322
Contributions received	179,114	175,684
Reclassification from grants related to assets	20,483	-
Receivable grant	12,925	231
Contributions recognized as income (note 8)	(131,149)	(175,698)
Balance at 31 December	139,912	58,539

20 Grants related to assets

	'000 AMD 31.12.2014	'000 AMD 31.12.2013
On borrowings to public facilities	243,970	152,868
On property and equipment	15,600	19,716
	259,570	172,584

Movement in grants related to assets is as follows:

	'000 AMD 2014	'000 AMD 2013
Balance at 1 January	172,584	-
Contributions received on borrowings	111,840	152,868
Reclassification to grants related to revenue	(20,483)	-
Contributions received on property and equipment	534	19,972
Income recognized the size of PPE depreciation	(4,905)	(256)
Balance at 31 December	259,570	172,584

21 Trade and other payables

	'000 AMD 31.12.2014	'000 AMD 31.12.2013
Accruals	42,710	41,503
Payables to the MoF	4,400	3,960
Other payables	8,774	8,774
Payables to suppliers	3,914	4,953
Payables on taxes other than on income tax	594	10,030
Payables to employees	85	83
	60,477	69,303

The Fund's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

The accruals comprise 2014 year contingent liabilities within agreements signed on energy efficiency events under Energy efficiency project.

22 Current reserves

	'000 AMD 2014	'000 AMD 2013
Balance at 1 January	10,230	6,579
Reduction	-	-
Addition	9,733	3,651
Balance at 31 December	19,963	10,230

Reserve comprises employees annual leave reserve and accrued expenses for auditing services.

23 Financial instruments risks

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management bases

The Management of the Fund has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Management has developed an internal control policy for managing and monitoring risks. The Management reports regularly to Fund's founder on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(b) Credit risk

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

Exposure to credit risk

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

	'000 AMD	
	Carrying amount	
	31.12.2014	31.12.2013
Loans issued	559,907	1,591,369
Loans issued (investments)	587,679	300,683
Trade and other receivables	17,945	20,179
Term deposits with banks	2,199,656	-
Cash and cash equivalents	1,064,397	2,578,857
	4,429,584	4,491,088

(i) Cash and cash equivalents

The Fund held cash and cash equivalents of AMD 1,064,397 thousand at 31 December 2014 (2013: AMD 2,578,857 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with a reputable Armenian bank and Central Treasury and the Fund does not expect them to fail to meet their obligations.

(ii) Term deposits with banks

As at 31 December 2014 the Fund has term deposits in HSBC bank Armenia CJSC, which is among 5 major banks of Armenia with the size of assets held.

As at 31 December 2013 the Fund did not held term deposits invested.

(iii) Loans issued

The Fund issued loans of AMD 1,254,760 thousand at 31 December 2014 (2013: AMD 1,718,307 thousand), which represents its average credit exposure on these assets. The loans are issued to two reputable Armenian banks and the Fund does not expect them to fail to meet their obligations (note 13).

As at 31 December 2014 the Fund set AMD 585,174 thousand (2013: 300,683 thousand) under "Investments in public facilities" A component of the Energy efficiency project, which represents its maximum credit exposure on these assets.

(c) **Liquidity risk**

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

Typically the Fund ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

2014

'000 AMD	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities							
Borrowings from the MoF	4,042,571	4,582,516	14,952	36,581	110,902	328,822	4,091,259
Trade and other payables	57,498	57,498	57,498	-	-	-	-
	<u>4,100,069</u>	<u>4,640,014</u>	<u>72,450</u>	<u>36,581</u>	<u>110,902</u>	<u>328,822</u>	<u>4,091,259</u>

2013

'000 AMD	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities							
Borrowings from the MoF	3,706,554	4,233,368	13,861	14,014	151,727	301,513	3,752,253
Trade and other payables	69,503	69,503	40,674	28,829	-	-	-
	<u>3,776,057</u>	<u>4,302,871</u>	<u>54,535</u>	<u>42,843</u>	<u>151,727</u>	<u>301,513</u>	<u>3,752,253</u>

(d) **Market risk**

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

(iv) Currency risk

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

	USD-denominated 2014	USD-denominated 2013
Loans issued	96,907	277,128
Trade and other receivables	28	2,754
Term deposits with banks	1,479,681	-
Cash and cash equivalents	660,880	1,657,299
Borrowings from the MoF	(2,302,003)	(1,965,986)
Trade and other payables	-	(2,101)
Net exposure	(64,507)	(30,906)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
1 USD equals AMD	462.93	409.59	474.97	405.64

Sensitivity analysis

A weakening of the AMD, as indicated below, against USD at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Fund considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

	'000 AMD Profit or loss
31 December 2014	
USD (10% appreciation)	(6,451)
31 December 2013	
USD (10% appreciation)	(3,091)

A strengthening of the AMD against USD at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Changes in exchange rates at the reporting date would not affect equity directly.

(v) Interest rate risk

At the reporting date Fund's interest-bearing financial instruments were loans issued (see note 13), and Borrowings from the MoF (see note 18), which were at fixed rates. Changes in exchange rates impact on the loans issued, term deposits with banks and borrowings from the MoF changing their fair value.

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

(e) Fair values

The basis for determining fair values is disclosed in note 4. Management believes that the fair value of the Fund's financial assets and liabilities approximates their carrying amounts.

(f) Capital management

Given the nature of the Fund's operations, the Fund does not have a formal capital management policy. The Fund is not subject to externally imposed capital requirements.

24 Contingencies

(a) Litigation

The Fund does not have any litigation that may have a material effect on the Fund's financial position.

(b) Taxation contingencies

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

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

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	'000 AMD 2014	'000 AMD 2013
Less than one year	3,333	3,333

During the year ended 31 December 2014 AMD 13,332 thousand (2013: AMD 13,332 thousand) was recognized as an expense in profit or loss in respect of operating leases, which is included in administrative expenses (see note 10).

26 Related party transactions

(a) Control relationships

The Fund's founder and the ultimate controlling party is the Republic of Armenia.

(b) Transactions with management

Key management received the following remuneration during the year, which is included in administrative expenses (see 10).

	'000 AMD 2014	'000 AMD 2013
Salaries and bonuses	13,447	20,177

(c) Transactions with the MoF

The Fund's transactions with the MoF are disclosed below.

(i) Statement of comprehensive income

	'000 AMD 2014	'000 AMD 2013
Interest expense	28,615	27,874

(ii) Trade and other payables

	'000 AMD 2014	'000 AMD 2013
Trade and other payables	13,174	12,734

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

(iii) *Borrowings from the MoF*

	Transaction value for the year ended 31 December		'000 AMD Outstanding balance as at 31 December	
	2014	2013	2014	2013
Borrowings from the MoF	-	3,960	4,042,571	3,706,554
	-	3,960	4,042,571	3,706,554