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An instinct for growth"

Financial Statements and Independent Auditor's Report

Renewable Resources and Energy Efficiency Fund

December 31, 2011

Contents

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Independent auditor's report

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To the board of trustees of Renewable Resources and Energy Efficiency Fund

We have audited the accompanying financial statements of Renewable Resources and Energy Efficiency Fund (the "Fund"), which comprise the statement of financial position as of December 31, 2011, and the statement of comprehensive income, the 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 information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 about 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 give a true and fair view of the financial position of Renewable Resources and Energy Efficiency Fund as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 20, 2012

Gagik Gyulbudaghyan

Managing Partner

Emil Vassilyan, FCCA

Engagement Partner

Members of the board of trustees of the Renewable Resources and Energy Efficiency Fund

Statement of financial position

In thousand drams	Note	As of December 31, 2011	As of December 31, 2010 (restated)	As of January 1, 2010 (restated)
Assets				
Non-current assets				
Property and equipment	4	12,514	18,935	23,370
Intangible assets		5,132	336	840
Prepayments for acquisition of non-current assets				2,064
Borrowings provided	5.1	1,392,450	1,392,450	1,392,450
		1,410,096	1,411,721	1,418,724
Current assets				
Inventories		494	1,780	1,156
Receivables and advances	6	7,540	129,402	93,391
Borrowings provided	5.1	-	-	16
Income tax advance		1,964	-	-
Cash and bank balances	7	1,921,911	1,228,990	1,025,539
		1,931,909	1,360,172	1,120,102
Total assets		3,342,005	2,771,893	2,538,826
Liabilities and net assets				
Non-current liabilities				
Grants related to assets	8	-	3,065	15,095
Borrowings received	5.2	1,392,450	1,392,450	1,392,450
		1,392,450	1,395,515	1,407,545
Current liabilities				
Accounts payable	9	160,541	244,876	365,784
Borrowings received	5.2	1,199	4,069	3,313
Current income tax liabilities		-	14,609	12,626
		161,740	263,554	381,723
Net assets		1,787,815	1,112,824	749,558
, and net assets		3,342,005	2,771,893	2,538,826

^financial statements were approved on March 22, 2012 by:

?^rriara Babayan' ,
I If* a ^lixecutive director '

Ro2a Manucharyan
Financial Manager

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Statement of comprehensive income

In thousand drams	Note	Year ended December 31, 2011	Year ended December 31, 2010
Income from operations	10	685,677	1,064,608
Other income	11	31,197	125,025
Finance income	5.1	92,288	92,288
Project expenses	12	(660,241)	(1,037,299)
Administrative expenses	13	(95,157)	(65,566)
Finance costs	5.2	(14,118)	(13,729)
Gain/(loss) from exchange rate difference	14	61,528	(36,123)
Results before taxes		101,174	129,204
Income tax expense	15	(22,643)	(36,691)
Result for the year		78,531	92,513
Other comprehensive income		596,460	270,753
Total comprehensive income for the year		674,991	363,266

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 30.

Statement of changes in net assets

In thousand drams	Restricted funds - Project financing (refer to note 16)	Unrestricted funds - Accumulated profit	Total
as of January 1, 2010	455,716	293,842	749,558
Profit for the year	-	92,513	92,513
Other comprehensive income for the year	270,753		270,753
Total comprehensive income for the year	270,753	92,513	363,266
as of December 31, 2010	726,469	386,355	1,112,824
Profit for the year	-	78,531	78,531
Other comprehensive income for the year	596,460		596,460
Total comprehensive income for the year	596,460	78,531	674,991
as of December 31, 2011	1,322,929	464,886	1,787,815

The statement of changes in net assets is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 30.

Statement of cash flows

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Cash flows from operating activities		
Profit for the year	78,531	92,513
Adjustments for:		
Depreciation and amortization	11,226	15,260
Finance costs	14,118	13,729
Finance income	(92,288)	(92,288)
Income tax expense	22,643	36,691
Uses of funds	(663,306)	(921,428)
Operating loss before working capital changes	(629,076)	(855,523)
Change in inventories	1,286	(624)
Change in receivables and advances	121,862	(33,947)
Change in payables	(84,335)	(120,908)
Cash used in operations	(590,263)	(1,011,002)
Interest paid	(39,217)	(34,708)
Income tax paid	(16,988)	(12,973)
Net cash used in operating activities	(646,468)	(1,058,683)
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(9,601)	(10,321)
Financing received	1,373,271	1,358,175
Financing used	(116,569)	(178,024)
Interests received	92,288	92,304
Net cash from investing activities	1,339,389	1,262,134
Net increase in bank balances	692,921	203,451
Bank balances at the beginning of the year	1,228,990	1,025,539
Bank balances at the end of the year	1,921,911	1,228,990

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 8 to 30.

Notes to the financial statements

1 Nature of operations and general information

Renewable Resources and Energy Efficiency Fund (the "Fund") has been established in November 21, 2005, in accordance with the decree N799 of the Government of the Republic of Armenia dated April 28, 2005.

The Fund is a non-for-profit organization. The founder of the Fund is the Republic of Armenia (the "Founder").

The objectives of the Fund are to:

a) facilitate investments in the renewable energy and energy efficiency sectors;

b) promote the development of energy efficiency and renewable energy market in Armenia;

c) reduce adverse anthropogenic impacts on the environment and human health;

d) develop activities focused on energy safety and increasing energy system reliability;

e) in case of obtaining respective authority under the legislation of Republic of Armenia, initiate loan and credit projects promoting the sector development on behalf of the Government, based upon the agency contracts signed with the Government.

The Fund implements the following projects:

Urban Heating Project, which is financed under the 4102 AM Credit Agreement dated July 20, 2005 signed between the International Development Association (the "IDA") and the Government of the Republic of Armenia. The objective of the Project is to increase the use of clean, efficient, safe and affordable heating technologies in urban schools and multi-apartment buildings.

Renewable Energy Project, which is financed under the grant agreement TF 056211 dated April 7, 2006 signed between the International Bank for Reconstruction and Development and the Government of the Republic of Armenia and credit agreement 4159 AM signed between the International Development Association and the Government of the Republic of Armenia. The objective of the Project is to increase the role of the privately-owned and operated power generation, utilizing the renewable energy.

Preparation of Electricity Supply Reliability and Energy Efficiency Project (GEF PPG Grant TF 094673), which is financed under the agreement dated July 16, 2009 signed between the International Bank for Reconstruction and Development and the Government of the Republic of Armenia. The objective of the Project is to prepare the Energy efficiency component of Electricity Supply Reliability and Energy Efficiency Project.

Geothermal Project (Grant Agreement TF 093653), which is financed under the agreement dated January 22, 2009 signed between the International Bank for Reconstruction and Development and the Republic of Armenia. The objective of the Project is to assess the feasibility of exploratory drilling of the geothermal site with the highest estimated geothermal potential.

Urban Heating Project, Renewable Energy Project and Preparation of Electricity Supply Reliability and Energy Efficiency Project were closed in 2011.

Within the framework of the Urban Heating Project the Government of the Republic of Armenia should allocate borrowings through the Fund. The Fund agreed to provide its borrowings to potential beneficiaries.

The potential beneficiaries of projects implemented by the Fund can be:

a) management bodies of multi-apartment buildings;

b) economic entities;

c) secondary schools;

d) individuals.

An agency contract was signed on January 16, 2006 between the Government of the Republic of Armenia represented by the Ministry of Finance and Economy and the Fund, which is described below:

- according to the contract, the Fund shall carry out legal and other activities for the implementation of the Urban Heating Project on behalf of the Government of Republic of Armenia;

- within the Urban Heating Project framework, the Fund shall ensure the execution of activities anticipated by components specified in the Development Credit Agreement.

- the Fund shall execute the lenders right pursuant to civil contracts in force and signed by "Heating and Multi-apartment Buildings Assistance Management Bodies Support Projects PIU" SI, within the framework of Letter-Agreement No PPF Q 353-0-AM of "Advance for Proposed Urban Heating Project" signed between Republic of Armenia and IDA on April 3, 2003.

The average number of employees of the Fund during 2011 was 17 (2010: 21).

The legal address of the Fund is Melik Adamyan 1, Yerevan, Armenia.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Currently, IFRS do not contain specific guidance for non-profit **organi2ations** and non-governmental organizations concerning the accounting treatment and presentation of financial statements. Where IFRS do not give guidance on how to treat transactions specific to not for profit sector, accounting policies have been based on the general principles of IFRS, as detailed in the International Accounting Standards Board ("IASB") *Framework for Preparation and Presentation Financial Statements.*

The management of the Fund applied the "net assets" basis for presentation of the financial statements. The net asset is the difference between the Fund's assets and liabilities and includes the accumulated profit (unrestricted funds) of the Fund as well as the unused balance of financing (restricted funds). Funds are restricted if they can be used only for the purposes stipulated in the contract signed with the donor. Otherwise, the funds are considered as unrestricted.

2011 is the first year when the Fund applied the "net assets" basis for presentation of the financial statements. The impact of this basis on the financial statements of the Fund is presented in the note 23.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Fund's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Fund.

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

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of incomes and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note 17 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Fund has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2011.

Standards affecting presentation and disclosure

IAS 24 *Related Party Disclosures* (as revised in 2009)

In accordance of IAS 24 *Related Party Disclosures* (revised in 2009), the following modification was added to the definitions of related parties: "A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government".

The IAS 24 *Related Party Disclosures* states that for government-related entities a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with a government that has control, joint control or significant influence over the reporting entity and another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

If the Fund applies this exemption, it shall disclose the following about the transactions and related outstanding balances:

(a) the name of the government and the nature of its relationship with the Fund (i.e. control, joint control or significant influence);

(b) the following information in sufficient detail to enable users of the Fund's financial statements to understand the effect of related party transactions on its financial statements:

(i) the nature and amount of each individually significant transaction; and

(ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Fund

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Fund.

Management anticipates that all of the relevant pronouncements will be adopted in the Fund's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Fund's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Fund's financial statements.

IFRS 9 *Financial Instruments*

This Standard issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair

Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt instruments and equity instruments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. The management anticipate that IFRS 9 will be adopted in the Fund's financial statements for the annual period beginning January 1, 2015 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the Fund's financial assets and financial liabilities.

2.6 Restatement of financial statements

The financial statements including the comparative information for prior periods are presented as if the correction had been made in the period in which such a necessity arose. Therefore, the amount of the correction that relates to each period presented is included in the financial statements of that period. The amount of the correction in the comparative financial statements of prior periods is made in the earliest period presented. However, the correction did not have any impact on the financial results of the prior periods (refer to note 23).

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 385.77 drams for 1 US dollar as of December 31, 2011 (December 31, 2010: 363.44 drams for 1 US dollar, December 31, 2009: 377.89 drams for 1 US dollar).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other direcdy attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

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

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

Computers and accessories	-	4 years
Vehicles	-	5 years
Other	-	5 years.

3.3 Intangible assets

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

Amortization is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 5 years for accounting software.

3.4 Leased assets

In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as an obligation under finance lease, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable assets which are legally owned by the Fund. The corresponding obligation under finance lease is reduced by lease payments less finance charges, which are expensed to finance costs. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the statement of comprehensive income over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.5 Inventories

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

3.6 Financial instruments

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

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

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

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

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

Financial assets

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

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

As of the reporting dates the financial assets of the Fund are categorized under "loans and receivables". Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or directly in other comprehensive income. Refer to note 18.2 for a summary of the Fund's financial assets by category.

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

Loans and receivables

a) Borrowings provided

Borrowings provided are recognized initially at fair value, net of transaction costs associated with the borrowing (the management's estimates and assumptions relating to fair value are presented in the note 17.1). Subsequent to initial recognition, borrowings are stated at amortized cost.

Borrowings, provided by the Fund to commercial banks and credit organizations within the framework of the agreement signed with the Government of the Republic of Armenia, are recorded in the statement of financial position of the Fund as financial assets, although the Fund acts as an agent in this transaction, since the Fund bears the risks of non-repayment of the borrowings by the commercial banks and credit organizations. However, where the Fund does not bear this risk of non-repayment, the borrowings are not recognized in the Fund's statement of financial position. Instead, the Fund records the interest payments related to these borrowings to be transferred to the Government under "Payables to the State budget against borrowings redeemed" caption in accounts payable. The amounts collected from the redemption of the principal amounts of these borrowings are included in the statement of comprehensive income under "other comprehensive income".

b) Accounts receivable

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

Grants that are receivable as compensation for expenses already incurred are recognized as receivables in the period when their collection is considered probable.

c) Cash and bank balances

The Fund's cash and bank balances comprise cash in hand, bank accounts and cash in transit.

Financial liabilities

The Fund's financial liabilities include borrowings and payables. A summary of Fund's financial liabilities by category is given in note 18.2.

a) Borrowings received

Borrowings received are recognized initially at fair value, net of issuance costs associated with the borrowing (the management's estimates and assumptions relating to fair value are presented in the note 17.1). Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the statement of comprehensive income over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses.

b) Payables

Payables are stated at fair value and subsequently stated at amortized cost.

3.7 Impairment

Impairment of property and equipment and intangible assets

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

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

3.8 Grants related to assets

Grants are not recognized until there is reasonable assurance that the Fund will comply with the conditions attaching to them and the grants will be received.

Grants whose primary condition is that the Fund should purchase, construct or otherwise acquire non-current assets are recognized as grants related to assets in the statement of financial position (under non-current liabilities) and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3.9 Income tax

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

3.10 Income recognition

Uses of funds

The Fund records income from the use of resources received from different sources in the framework of grant and loan projects.

Finance income

Finance income relates to interests earned on borrowings provided by the Fund.

Rendering of services

Income from a contract to provide services is recognized when:

- the amount of revenue may be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Fund;
- the stage of completion of the transaction at the reporting date may be reliably measured; and
- the costs incurred for the transaction and the costs to complete the transaction may be reliably measured.

Income from grants

The policy applied for grant is described in the note 3.8.

Payments made within the scope of agency contract

Within the scope of the agency contract signed between the Fund and the Republic of Armenia, the Fund obtains respective authority, funds and is obliged to implement the objectives of the projects. Amounts disbursed at the expense of the Fund for the implementation of projects have to be reimbursed by the Ministry of Finance the Republic of Armenia. The reimbursed amounts are recognized as income in the period when they incur (included under the caption of "other income").

4 Property and equipment

In thousand drams	Computers and accessories	Vehicles	Other	Total
Cost				
as of January 1, 2010	32,228	22,771	11,346	66,345
Additions	10,321		-	10,321
as of December 31, 2010	42,549	22,771	11,346	76,666
Additions	2,119	-	1,482	3,601
Disposals	(2,663)	-	-	(2,663)
as of December 31, 2011	42,005	22,771	12,828	77,604
Accumulated depreciation and impairment				
as of January 1, 2010	23,347	12,031	7,597	42,975
Charge for the year	7,933	4,554	2,269	14,756
as of December 31, 2010	31,280	16,585	9,866	57,731
Charge for the year	5,499	3,226	1,297	10,022
Eliminated on disposal	-	-	(2,663)	(2,663)
as of December 31, 2011	36,779	19,811	8,500	65,090
Carrying amount				
as of January 1, 2010	8,881	10,740	3,749	23,370
as of December 31, 2010	11,269	6,186	1,480	18,935
as of December 31, 2011	5,226	2,960	4,328	12,514

As of the reporting dates the Fund does not have any pledged property and equipment.

As of December 31, 2011 the cost of fully depreciated property and equipment is drams 34,713 thousand (as of December 31, 2010: drams 20,228 thousand, as of December 31, 2009: nil)

5 Borrowings provided and received

In accordance with the 4102 AM Development Credit Agreement signed between the IDA and the Republic of Armenia, the IDA provided a borrowing amounting to 10 million SDR to the Republic of Armenia to implement the Urban Heating Project (refer to note 1).

The Government of the Republic of Armenia has agreed with the IDA to allocate the borrowings through the Fund. The Fund has agreed to provide the funds received as a borrowing to Participating Financial Institutions, which are either commercial banks or credit organizations. These funds will be subsequently forwarded by these Participating Financial Institutions as loans to beneficiaries in the framework of the Project.

For this purpose an additional agreement has been signed between the Ministry of Finance and Economy of the Republic of Armenia and the Fund. The maturity period of each part of the loan is seven years. The Fund is obliged to pay to the Ministry of Finance and Economy of the Republic of Armenia an interest of 1% per annum to be accrued on the outstanding balance of each borrowing. The remaining balance of that borrowing of drams 113,000 thousand was received in 2009.

In 2009 the Fund signed contracts on borrowing with "ACBA Credit Agricol Bank" CJSC, "Ardshininvestbank" CJSC and "Cascade Bank" CJSC. In 2010 "Cascade Bank" CJSC was restructured to "Ameria Bank" CJSC.

Borrowings to PFIs are provided both in Armenian drams and US dollars.

The interest rates are defined as follows:

- For borrowings denominated in US dollars: 6 months LIBOR plus 1 percent;

- For borrowings denominated in Armenian drams: the weighted average interest rate of 91-180 days deposits attracted from individuals as calculated by the Central Bank of Armenia for Armenian banks. The average rate for the past 6 months will be used, which can not be lower than US Dollars 6 months LIBOR.

As presented in the note 3.6 and 16, amounts borrowed from the Government of the Republic of Armenia and allocated to commercial banks are recognized in the statement of financial position of the Fund, considering the fact that the Fund has a contractual agreement to repay the borrowings to the Government of the Republic of Armenia, even if it fails to collect all due borrowings from the commercial banks.

On the other hand, where the Fund itself does not bear the risk of non-repayment of the borrowings, those borrowings are not included in the Fund's statement of financial position. During 2011 the Fund has not provided such a borrowing (2010: US dollars 12,500, 2009: US dollars 1,216,532 to "Cascade UCO" CJSC (present "Ameria Bank" CJSC)). These amounts were not reflected in the financial statements of the Fund.

Under the agency contract signed between the Ministry of Finance and Economy of the Republic of Armenia and the Fund, within the framework of Letter-Agreement No PPF Q 353-0-AM of "Advance for Proposed Urban Heating Project", the rights of control of the principal amount of the borrowings belong to the Ministry of Finance and Economy of the Republic of Armenia. The principal amount is directed to be used as sub-loan resources, defined by the additional borrowing agreement. These borrowings were not reflected in the financial statements of the Fund.

Management's estimates on measurement and recognition of borrowings received and provided are presented in the note 17.1.

5.1 Borrowings provided

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Borrowings provided	1,392,450	1,392,450	1,392,466
Including:			
Long-term portion	1,392,450	1,392,450	1,392,450
Short-term portion	.	-	16

Borrowings mature in 7 years and bear a weighted avera^re interest rate of 6.6% annually (2010: 6.6%, 2009: 6.6% annually).

During the reporting period, interest income of drams 92,288 thousand (2010: drams 92,288 thousand) has been accrued.

Borrowings are secured by guarantees and other pledges.

The maturity periods for the borrowings are as follows:

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Less than one year	-	-	16
1 -5 years	1,392,450	1,279,450	929,450
Over 5 years	-	113,000	463,000
	1,392,450	1,392,450	1,392,466

The carrying amounts of borrowings provided are related to the borrowings of "ACBA Credit Agricol Bank" CJSC.

5.2 Borrowings received

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Borrowings received	1,393,649	1,396,519	1,395,763
Including:			
Long-term portion	1,392,450	1,392,450	1,392,450
Short-term portion	1,199	4,069	3,313

Borrowings received mature in 7 years and bear a weighted average interest rate of \°,'a annually (2010: 1%; 2009: 1% annually).

The maturity periods for the borrowings are as follows:

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Less than 1 year	1,199	4,069	3,313
1-5 years	1,392,450	1,279,450	929,450
Over 5 years	-	113,000	463,000
	1,393,649	1,396,519	1,395,763

During the reporting period, interest expense of drams 14,118 thousand (2010: drams 13,729 thousand) has been accrued against borrowings received.

As of December 31, 2011 interests payable amounted to drams 1,199 thousand (as of December 31, 2010: drams 4,069 thousand; as of December 31, 2009: drams 3,313 thousand).

6 Receivables and advances

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Receivables from the Government of RA and the World Bank		116,569	79,150
Receivables from the State budget	272	2,187	-
Other	7,268	10,646	14,241
	7,540	129,402	93,391

All amounts are short-term. The net carrying value of receivables is considered a reasonable approximation of fair value.

Receivables from the Government of the Republic of Armenia and the World Bank consists of accrued expenses, which are subject to subsequent redemption by the Government of Republic of Armenia and the World Bank based on the existing agreement.

Management believes that receivables from the State budget are fully recoverable.

7 Cash and bank balances

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Bank accounts	1,921,911	1,140,030	1,025,539
Cash in transit		88,960	-
	1,921,911	1,228,990	1,025,539

8 Grants related to assets

In thousand drams	2011	2010
Balance at beginning of year	3,065	15,095
Recognized as income (refer to note 10)	(3,065)	(12,030)
Balance at end of year	-	3,065

9 Accounts payables

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Payables to contractors	13,603	99,718	233,434
Taxes payable	2,313	10,187	13,576
Payables to the State budget against borrowings redeemed	131,171	117,877	92,263
Advances from beneficiaries	8,827	10,965	19,400
Other	4,627	6,129	7,111
	160,541	244,876	365,784

Payables to the State budget against borrowings redeemed include repayments made against provided borrowings, which were not included in the financial statements of the Fund (refer to note 3.6).

10 Income from operations

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Income from implemented projects	660,241	909,398
Income from grant related to assets	3,065	12,030
Income from the financing of the Government of RA and the World Bank	-	116,569
Other	22,371	26,611
	685,677	1,064,608

Income from the financing of the Government of the Republic of Armenia and the World Bank

Amounts disbursed by the Fund to pursue the objectives of the projects are subject to be reimbursed by the Government of the Republic of Armenia and the World Bank and recognized as income from operations (also refer to note 6).

11 Other income

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Income from rendered services	8,289	84,371
Agency fees	22,688	40,654
Other	220	-
	31,197	125,025

12 Project expenses

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Urban Heating Project	247,791	822,873
Electricity Supply Reliability and Energy Efficiency Project	5,749	33,094
Renewable Energy Project	248,645	166,989
Geothermal Project	158,056	14,343
	660,241	1,037,299

13 Administrative expenses

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Employee benefits	64,947	30,519
Depreciation and amortization	8,522	12,556
Utilities and communication expense	3,632	3,974
Other	18,056	18,517
	95,157	65,566

14 Gain/(loss) from exchange rate differences

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Financial liabilities measured at amortized cost	3,465	3,424
Borrowings and receivables	58,063	(39,547)
	61,528	(36,123)

15 Income tax expense

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Current tax	22,061	36,691
Current tax adjustments of the previous year recognized in the current year	582	-
Deferred tax	-	-
	22,643	36,691

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2011	Effective tax rate (%)	Year ended December 31, 2010	Effective tax rate (%)
Profit before taxation (under IFRS)	101,174		129,204	
Tax calculated at a tax rate of 20% (2010: 20%)	20,235	20.0	25,841	20.0
(Non-taxable)/non-deductible items, net	2,408	2.4	10,850	8.4
Income tax expense	22,643	22.4	36,691	28.4

16 Other comprehensive income

In thousand drams	2011	2010
Balance at beginning of year	726,469	455,716
Financing received from the World Bank and the Government of the Republic of Armenia	721,400	935,498
Uses of funds	(660,241)	(909,398)
Other movements	535,301	244,653
Balance at the end of year	1,322,929	726,469

Other movements include redemptions of principal amounts of borrowings provided. In accordance with the agency contract, if the Fund participates as an agent (refer to note 3.6) other movements include reimbursements for the accounts written off and other.

17 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

17.1 Critical accounting estimates

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Recognition of borrowings received and provided

According to the borrowing contract signed between the Fund and the Ministry of Finance and Economy of the Republic of Armenia, the Fund has received borrowings from the Government of the Republic of Armenia and redirected those amounts to commercial banks as "borrowings provided" (refer to note 5).

The assets and liabilities generated from these borrowings (including interest receivables and payables) provided to "ACBA Credit Agricol Bank" CJSC are recognized in the statement of the financial position of the Fund, because according to the contract signed between the Fund and the Ministry of Finance and Economy of the Republic of Armenia, the non-redemption risks connected to those borrowings are carried by the Fund. On the other hand, borrowings provided to "Cascade UCO" CJSC (presently "Ameria Bank" CJSC) are not recognized in the statement of financial position of the Fund, since the Fund will not carry any obligation for non-redemption of the borrowing.

However, had not been those borrowings recognized in the financial statements of the Fund, the borrowings included in the statement of financial position would be presented as follows:

2011

In thousand drams	Current accounting	Without those borrowings
Assets		
Non-current assets		
Borrowings provided	1,392,450	
Liabilities		
Borrowings received	1,392,450	1,199

2010

In thousand drams	Current accounting	Without those borrowings
Assets		
Non-current assets		
Borrowings provided	1,392,450	-
Liabilities		
Borrowings received	1,396,519	4,069

b) Fair values for received and provided borrowings

As presented in the note 5, the Fund received borrowings, which are subsequendy provided to commercial banks or credit organizations. Taking into consideration the absence of an appropriate financial market for borrowings with similar amounts and terms, as well as the fact that the Fund is a not- for-profit organization, the management estimates that the carrying amounts of borrowings received and provided approximates their fair values and consequendy they are not discounted by market rates. However, if the management change its intention on this matter the financial statements of the Fund will be significandy changed.

18 Financial instruments

18.1 Significant accounting policies

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

18.2 Categories of financial instruments

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

Financial assets

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Loans and receivables:			
Borrowings provided	1,392,450	1,392,450	1,392,466
Receivables	7,268	127,215	85,538
Bank balances	1,921,911	1,228,990	1,025,539
	3,321,629	2,748,655	2,503,543

Financial liabilities

In thousand drams	As of December 31, 2011	As of December 31, 2010	As of January 1, 2010
Financial liabilities measured at amortized costs:			
Borrowings received	1,393,649	1,396,519	1,395,763
Payables	149,401	223,724	332,808
	1,543,050	1,620,243	1,728,571

19 Financial risk management

The Fund is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Fund does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Fund is exposed are described below.

19.1 Financial risk factors

a) Market risk

The Fund is exposed to market risk through its use of financial instruments and specifically to currency risk, which result from its operating activity.

Foreign currency risk

The Fund undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Most of the Fund's transactions are carried out in Armenian drams. Exposures to currency exchange rates arise from the revaluation of the funds denominated in the foreign currency, which are primarily denominated in US dollars.

Foreign currency denominated financial assets and liabilities which expose the Fund to currency risk are disclosed below.

Item 2011	Freely convertible currency
Financial assets	
Bank balances	1 252,266
Financial liabilities	
Net position	1,252,266

Item 2010	Freely convertible currency
Financial assets	
Bank balances	553,965
Financial liabilities	
Net position	553,965

The following table details the Fund's sensitivity to a 10% (2010: 10%) increase and decrease in dram against US dollar. 10% (2010: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2010: 10%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar by 10% (2010: 10%) then this would have had the following impact:

In thousand drams	US dollar impact	
	2011	2010
Profit or loss	125,227	55,396

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Fund's exposure to currency risk.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Fund. The effect of this risk for the Fund arises from different financial instruments, such as accounts receivable, borrowings provided, etc. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of December 31, 2011	As of December 31, 2010
Financial assets at carrying amounts		
Borrowings provided	1,392,450	1,392,450
Accounts receivable	7,268	127,215
Cash and bank balances	1,921,911	1,228,990
	3,321,629	2,748,655

Management believes that the credit risk for provided borrowings is not significant. It is conditioned by consistency of financial institutions in the execution of its contractual obligations and secured borrowings etc.

At the reporting date there was no significant concentration of credit risk in respect of receivables. The Fund has not made provisions as of December 31, 2011 for overdue receivables.

The credit risk for cash and cash equivalents is considered negligible, since cash is held in "HSBC Bank Armenia" CJSC, a reputable bank and the Treasury of the Ministry of Finance of the Republic of Armenia.

c) Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its obligations.

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

20 Commitments

20.1 Operating lease commitments

The Fund as lessor

Operating lease relate to building with lease term of 5 years. The Fund does not have an option to purchase the leased asset at the expiry of the lease period.

Non-cancelable operating lease commitments are disclosed below:

In thousand drams	As of December 31, 2011	As of December 31, 2010
Within one year	13,332	18,000
1 to 5 years	49,995	–
	63,327	18,000

20.2 Legal matters

The civil case resulted from the petition of "Yerfrez" OJSC against Renewable Resources and Energy Efficiency Fund and the RA Ministry of Finance claiming the early termination of the contract concluded as of June 01, 2005 and, as a consequence, the mandatory withdrawal of the equipment loaned to "Yerfrez" OJSC, was up for discussion at the tribunal of first instance of the administrative districts Arabkir and Kanaker-Zeytun of Yerevan in 2011. The court proceeding still continues as of the reporting date.

With this respect Renewable Resources and Energy Efficiency Fund is acting as the agent of the RA Ministry of Finance (the Creditor) on the basis of the agency contract signed between the Republic of Armenia, represented by the RA Ministry of Finance and Economy, and the Fund as of January 16, 2006.

21 Contingencies

21.1 Business environment

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

The possible effects of these factors on the Fund may include the inability to pay creditors when they become due, impaired reputation, difficulties in selling the goods and services, difficulties in obtaining funds, etc. All these problems may lead to the lessened liquidity of the Fund and, accordingly, to going concern problems. Also, there are still uncertainties about the economic situation of countries, collaborating with Armenia, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Fund may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Fund may be affected.

The financial statements of the Fund do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the factors described above become observable and reliably measurable in Armenia.

21.2 Insurance

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

21.3 Taxes

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

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

22 Related party transactions

22.1 Transactions with management and close family members

The Fund's related parties include its key management.

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

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Salaries and bonuses	16,147	19,742

23 Restatement of comparative financial statements

In 2011 the Fund's management applied the "net assets" basis for presentation of the financial statements. The net asset is the difference between the Fund's assets and liabilities and includes the accumulated profit or loss of the Fund, the revaluation reserve as well as the unused balance of financing. As a result the Fund's statement of comprehensive income has not been changed. Details are presented in notes 2.1 and 16.

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