Grant Thornton

Financial Statements and Independent Auditor's Report

Renewable Resources and Energy Efficiency Fund

December 31, 2008

Contents

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

Grant Thornton

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 the Renewable Resources and Energy Efficiency Fund (the "Fund"), which comprise the balance sheet as of December 31, 2008, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of December 31, 2008, and of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

June 10, 2009

Armand Pinarbasi, CA

Managing Partner

Emil Vassilyan, FCCA

Engagement partner

Disclaimer

The attached financial statements were originally prepared in Armenian language and then translated into English for the convenience of readers. In the event of any differences between the English and Armenian versions, the Armenian will prevail.

Balance sheet

In thousand drams	Note	As of December 31, 2008	As of December 31, 2007
Assets			
Non-current assets			
Property and equipment	4	38,247	42,141
Intangible assets		1,344	1,848
Borrowings provided	5	1,279,450	1,075,238
		1,319,041	1,119,227
Current assets			
Inventories		1,178	1,370
Receivables and advances	6	84,454	139,914
Borrowings provided	5	8,373	9,682
Bank balances		640,056	78,793
		734,061	229,759
Total assets		2,053,102	1,348,986
Liabilities and fund balance			
Fund balance/(deficit)		43,725	(46,582)
Non-current liabilities			
Grants related to assets	7	27,246	31,118
Borrowings received	5	1,279,450	1,075,238
		1,306,696	1,106,356
Current liabilities			
Accounts payable	8	131,545	230,889
Borrowings received	5	34,583	24,335
Deferred income	9	522,030	28,387
Current income tax liabilities		14,523	5,601
		702,681	289,212
Total liabilities and fund balance		2,053,102	1,348,986

The financial statements were approved on April 15, 2009 by:

Tamara Babayan
Executive director

Larisa Dallakyan
Financial Manager

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 28.

Income statement

In thousand drams	Note	Year ended December 31, 2008	Year ended December 31, 2007
Income			
Income from operation	9	1,317,549	1,329,875
Finance income		114,940	60,075
Income from agency contracts		82,392	90,886
Other income		4,964	5,774
		1,519,845	1,486,609
Expenses			
Project expenses	10	(1,300,545)	(1,480,137)
Finance costs		(14,394)	(7,097)
Administrative expenses		(78,932)	(101,967)
Other expenses		(14,690)	(10,310)
Gain/(loss) from exchange rate differences		861	(45,815)
Profit/(loss) before taxes		112,145	(158,717)
Income tax expense	11	(21,838)	(11,008)
Profit/(loss) for the year		90,307	(169,725)

	2008	2007
Change in the fund balance/(deficit)		
At the beginning of the year	(46,582)	123,143
Profit/(loss) for the year	90,307	(169,725)
At the end of the year	43,725	(46,582)

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 28.

Cash flow statement

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Cash flows from operating activities		
Profit/(loss) for the year	90,307	(169,725)
Adjustments		
Depreciation and amortization	15,157	9,322
Finance costs	14,394	7,097
Finance income	(114,940)	(60,075)
Income tax expense	21,838	11,008
Income from grants	(14,631)	(8,796)
Operating profit/(loss) before working capital changes	12,125	(211,169)
Change in inventories	192	90
Change in receivables and advances	55,460	(139,832)
Change in payables	(99,344)	1,801
	(31,567)	(349,110)
Income tax paid	(12,916)	(9,207)
Interest paid	(11,273)	(3,783)
Net cash used in operating activities	(55,756)	(362,100)
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(10,759)	(18,482)
Cash received through grants	504,402	245,228
Interest received	123,376	46,869
Net cash from investing activities	617,019	273,615
Net increase/(decrease) in cash	561,263	(88,485)
Cash at the beginning of the year	78,793	167,278
Cash at the end of the year	640,056	78,793

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 28.

Notes to the financial statements

1 Nature of operations and general information

Renewable Resources and Energy Efficiency Fund (the "Fund") has been established on November 21, 2005, in accordance with the decree N799 of the Government of the Republic of Armenia ("RA") 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 of energy system reliability;

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

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

a) management bodies of multi-apartment buildings;

b) economic entities;

c) secondary schools;

d) individuals.

Within the framework of the "Development Credit Agreement" (the "DCA") signed between the International Development Association (the "IDA") and the RA dated July 20, 2005, the IDA has lent to the RA an amount equal to Special Drawing Rights 10 million to assist in the implementation of the "Urban Heating Project" (hereinafter, the "Project"), whereas an agency contract was signed on January 16, 2006 between the RA Government 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 Project on behalf of the RA Government;

- Within the Project framework, the Fund shall ensure the execution of activities anticipated by components specified in the DCA.

- 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-A of "Advance for Proposed Urban Heating Project" signed between the RA and IDA on April 3, 2003.

The average number of employees of the Fund during 2007 was 20 (2007: 20).

The Fund's registered office is located at 1 Melik Adamyan street, Yerevan, RA.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared based on the accounting records maintained under the requirements of the Armenian legislation and presented in accordance with International Financial Reporting Standards ("IFRS"). The only additional discloser relates to financial instruments and financial risk management disclosed in the note 15, in accordance with IFRS 7 "Financial Instruments: Disclosures".

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 revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note 14 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, 2008.

2.6 Standards and Interpretations not yet applied by the Fund

At the date of authorization of these financial statements, certain new Standards, amendments and Interpretations to the existing Standards have been published but are not yet effective. The Fund has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Fund's accounting policy for the first period beginning after the effect date of the pronouncement.

The new Standards, amendments and Interpretations to the existing Standards that are not yet effective but are expected to be relevant to Fund's financial statements

IAS 1 *Presentation of Financial Statements* (revised 2007)

New amendments in this standard affect the presentation of owner changes in equity and introduce a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Fund, but will give rise to additional disclosures.

The new Standards, amendments and Interpretations to the existing Standards that are not yet effective and are not expected to be significant to the Fund's financial statements

IFRS 3 *Business Combinations* (revised 2008)

This standard is applicable for business combinations occurring in reporting periods beginning on or after July 1, 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires the use of the purchase method, and will have a significant effect on business combinations occurring in reporting periods beginning on or after July 1, 2009.

IFRIC 13 *Customer Loyalty Programmes*

This interpretation clarifies that when goods or services are sold together with a customer loyalty incentive (loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Fund currently is not running a similar programme. Accordingly, management believes that this interpretation is not relevant to the Fund's financial statements.

Amendment to IFRS 2 *Share-based Payment*

This amendment relates to vesting conditions and cancellations. The Fund currently is not running any share-based payment scheme. Accordingly, management believes that this amendment is not relevant to the Fund's financial statements.

IAS 23 *Borrowing Costs* (revised 2007)

Amendments in this standard require the capitalization of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a period of time to get ready for their intended use or sale.

In accordance with the transitional provisions of the amended Standard, no changes will be made for borrowing costs incurred to this date that have been expensed.

Accordingly, management believes that this interpretation is not relevant to the Fund's financial statements.

Annual improvements 2008

The IASB has issued *Improvements for International Financial Reporting Standards 2008*. Most of these amendments become effective in annual periods beginning on or after January 1, 2009. Management believes that these improvements will not have significant impact on the Fund financial statements.

IAS 23 (Amendment) *Borrowing Costs* (effective from January 1, 2009).

The definition of borrowings costs has been amended so that interest expense is calculated using the effective interest rate method defined in IAS 39 *Financial Instruments: Recognition and Measurement* (effective from January 1, 2009). The Fund will apply the IAS 23 (Amendment) prospectively to the capitalization of borrowing costs from January 1, 2009.

IAS 28 (Amendment) *Investments in Associates (and consequential amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures)* (effective from January 1, 2009)

An investment in associate is treated as a single asset for the purposes of a single asset. The Fund will apply the IAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from January 1, 2009.

IAS 36 (Amendment) *Impairment of Assets* (effective from January 1, 2009)

Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Fund will apply the IAS 36 (Amendment) and provide the required disclosures where applicable for impairment tests from January 1, 2009.

IAS 38 (Amendment) *Intangible Assets* (effective from January 1, 2009)

A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

Additionally, the amendment deletes the wording that states that there is "rarely if ever" support for use of a method that results in a lower rate of amortization than the straight-line method. The amendment will not have an impact on the Fund's operations, since all intangible assets are amortized using the straight-line method.

IAS 20 (Amendment) *Accounting for Government Grants and Disclosure of Government Assistance* (effective from January 1, 2009)

The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received with the benefit to be accounted for in accordance with IAS 20. The Fund will apply the IAS 20 (Amendment) from January 1, 2009.

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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the balance sheet date, which is 306.73 drams for 1 US dollar as of December 31, 2008 (December 31, 2007: 304.22 drams for 1 US dollar). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historic cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

3.2 Property, plant and equipment

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

Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Fund's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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 income and expenses as incurred.

Depreciation is charged to the statement of income and expenses 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 income and expenses 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 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.

3.5 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 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.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognized in profit or loss or directly in equity. See note 15.2 for a summary of Fund's financial assets by category.

Generally, the Fund recognizes all financial assets using settlement day 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 [consolidated] income statement line item "finance costs" or "finance income", respectively.

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of transaction costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the statement of income and expenses over the period of the borrowings on an effective interest basis.

Borrowings, provided by the Fund to commercial banks within the framework of the agreement signed with the RA Government, are recorded in the balance sheet of the Fund as financial assets, though the Fund acts as an agent in this transaction.

Interest and other income incurred in connection with borrowings are recognized as incurred as part of finance assets.

ii Accounts receivable

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments (more than 365 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

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

iii Bank balances

Cash and bank balances are included in the category of "loans and receivables".

Financial liabilities

The Fund's financial liabilities include borrowings, payables including finance lease liabilities, which are measured at amortized cost using the effective interest rate method. A summary of Fund's financial liabilities by category is given in note 15.2.

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of transaction costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the statement of income and expenses over the period of the borrowings on an effective interest basis.

Borrowings, received from the RA Government, which were provided as borrowings to commercial banks, are recorded in the balance sheet of the Fund as financial liabilities, though the Fund acts as an agent in this transaction.

Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses.

ii Accounts payable

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

3.6 Impairment

Impairment of property and equipment, 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.

Impairment of financial assets

Financial assets, other than those at fair value through income or expenses, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of transaction costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the statement of income and expenses over the period of the borrowings on an effective interest basis.

Borrowings, received from the RA Government, which were provided as borrowings to commercial banks, are recorded in the balance sheet of the Fund as financial liabilities, though the Fund acts as an agent in this transaction.

Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses.

ii Accounts payable

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

3.6 Impairment

Impairment of property and equipment, 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.

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

Impairment of financial assets

Financial assets, other than those at fair value through income or expenses, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income or expenses to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

3.7 Grants

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 deferred income in the balance sheet and transferred to income or expenses on a systematic and rational basis over the useful lives of the related assets as income related to grants.

Other grants are recognized as financing in the statement of income and expenses over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Fund with no future related costs are recognized as income in the reporting period in which they become receivable.

3.8 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

The assets and services received by the Fund for off charge and the expenditures related to them are not exposed to income taxation.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.9 Income from agency contracts

According to the agency contact signed between the RA and the Fund, the Fund is obliged to pursue the objective of the projects on the request, at the expense and on behalf of the RA, meanwhile receiving appropriate compensation for the services rendered in the framework of this contract. Within the scope of the agency contract all chargeable services were rendered for the implementation of the Projects' objectives. The amount of sales consists of the number of invoices presented to the RA Ministry of Finance and Economy.

4 Property, plant and equipment

In thousand drams

	Machinery and equipment	Vehicles	Other	Total
Cost				
as of January 1, 2007	20,511	7,971	8,622	37,104
Additions	958	14,800	2,724	18,482
as of December 31, 2007	21,469	22,771	11,346	55,586
Additions	10,759	-	-	10,759
as of December 31, 2008	32,228	22,771	11,346	66,345
Accumulated depreciation				
as of January 1, 2007	2,326	1,329	972	4,627
Charge for the year	5,137	1,594	2,087	8,818
as of December 31, 2007	7,463	2,923	3,059	13,445
Charge for the year	7,830	4,554	2,269	14,653
as of December 31, 2008	15,293	7,477	5,328	28,098
Carrying amount				
as of December 31, 2007	14,006	19,848	8,287	42,141
as of December 31, 2008	16,935	15,294	6,018	38,247

As of December 31, 2008 and December 31, 2007 the Fund does not have any pledged property and equipment.

During the reporting period the depreciation expense amounting to drams 14,653 thousand (2007: drams 8,818 thousand) was included in administrative expenses.

As of December 31, 2008 the property and equipment at the cost of drams 125,364 thousand (2007: drams 116,219 thousand) were fully depreciated.

5 Borrowings provided and received

According to the "Development Credit Agreement" (the "DCA") signed between the International Development Association (the "IDA") and the RA, the IDA has agreed to lend to the RA an amount equal to Special Drawing Rights (SDR) 10 million to assist in the implementation of the "Urban Heating Project" (hereinafter, the "Project").

In accordance with agreement reached with the IDA, the RA Government, through the Fund, should allocate those borrowings to banks or Participating Financial Institutions that are credit organizations (the "PFI") for on-lending to Beneficiaries included in the framework of the Project.

For this purpose an additional agreement has been signed between the RA Ministry of Finance and Economy and the Fund. The maturity period of each part of the loan is seven years. The Fund is obliged to pay to the RA Ministry of Finance and Economy an interest of 1% per annum to be accrued on the outstanding balance of each borrowing. In 2008 borrowings provided to the Fund amounted to drams 351,582 thousand (2007: US dollars 500,000 and drams 586,450 thousand).

In 2006 the Fund has signed contracts on borrowings with "ACBA Credit Agricol Bank" CJSC and "Ardshininvestbank" CJSC and in 2008 "Cascade Bank" CJSC.

During 2008 the Fund has provided drams 350,000 thousand to "ACBA Credit Agricol Bank" CJSC (2007: drams 586,450 thousand), drams 1,382 thousand to Cascade Bank" CJSC (2007: nil), and US dollars 500,000 to "Ardshininvestbank" CJSC, which was fully redeemed in 2008 before the maturity date.

During 2008 the Fund has provided US dollars 1,902,667 and drams 10,757 thousand to "Cascade UCO" CJSC. However, these amounts were not reflected in the financial statements of the Fund. In accordance with the agency contract signed between the Fund and the Ministry of Finance and Economy the ownership rights of borrowings belong to the RA Government.

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 shall be charged;

- 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 may not be lower than US Dollars 6 months LIBOR.

Under the agency contract signed between the RA Ministry of Finance and Economy and the Fund, within the framework of Letter-Agreement No PPF Q 353-0-AM of "Advance for Proposed Urban Heating Project", the ownership rights of the principal amount of the borrowings belong to the RA Ministry of Finance and Economy. The principal amount is directed to be used as sub-loan resources, defined by additional borrowing agreement.

As presented in the note 3.5 of the accounting policy, the amounts borrowed from the RA Government and allocated to commercial banks are recognized in the balance sheet of the Fund, considering the fact that the Fund has a contractual agreement to repay the borrowings to the RA Government, even if it fails to collect all due borrowings from the commercial banks.

In 2007 a contract on borrowing was signed between the Fund and "Cascade UCO" CJSC.
During 2008 the Fund has provided US dollars 1,902,667 and drams 10,757 thousand to "Cascade UCO" CJSC. However, these amounts were not reflected in the financial statements of the Fund.

5.1 Borrowings provided

In thousand drams	As of December 31, 2008	As of December 31, 2007
Provided borrowing	1,287,823	1,084,920
Including:		
Long-term portion	1,279,450	1,075,238
Short-term portion	8,373	9,682

Borrowings mature in 7 years and bear a weighted average interest rate of 6.1% annually (2007: 6.1% annually).

Borrowings are secured by guarantees, property and other pledges.

The maturity periods for the borrowings are as follows:

In thousand drams	As of December 31, 2008	As of December 31, 2007
6 months or less	6,990	3,360
6-12 months	1,383	6,322
1-5 years	936,450	124,323
Over 5 years	343,000	950,915
	1,287,823	1,084,920

The fair values of borrowings equal their carrying amount, as the Fund provides borrowings with such terms only within the framework of the described agreement.

The carrying amounts of the Fund's borrowings are denominated in the following currencies:

	As of December 31, 2008	As of December 31, 2007
Armenian dram	1,287,823	932,810
US dollar	-	152,110
	1,287,823	1,084,920

As of December 31, 2008 interests receivable amount to drams 6,990 thousand (2007: drams 3,360 thousand).

5.2 Borrowings received

In thousand drams	As of December 31, 2008	As of December 31, 2007
Borrowing received	1,314,033	1,099,573
Including:		
Long-term portion	1,279,450	1,075,238
Short-term portion	34,583	24,335

Borrowings mature in 7 years and bear a weighted average interest rate of 1% annually (2007: 1% annually).

The maturity periods for the borrowings are as follows:

In thousand drams	As of December 31, 2008	As of December 31, 2007
6 months or less	33,200	18,013
6-12 months	1,383	6,322
1-5 years	936,450	124,323
Over 5 years	343,000	950,915
	1,314,033	1,099,573

The fair values of borrowings equal their carrying amount, since it is possible to attract such amounts with similar terms only in the scope of special contracts.

The carrying amounts of the Fund's borrowings are denominated in the following currencies:

	As of December 31, 2008	As of December 31, 2007
Armenian dram	1,312,428	947,346
US dollar	1,605	152,227
	1,314,033	1,099,573

As of December 31, 2008 interests payable amount to drams 33,200 thousand (2007: drams 18,013 thousand).

6 Receivables and advances

In thousand drams	As of December 31, 2008	As of December 31, 2007
Receivables from the RA Government	78,172	126,303
Advances	92	8,311
Other	6,190	5,300
	84,454	139,914

Receivable amounting to drams 78,172 thousand (2007: drams 126,303 thousand) thousand consists of accrued expenses which are subject to subsequent redemption by the RA Government based on existing agreement. Management believes that this amount is fully recoverable.

7 Grants related to assets

In thousand drams

	2008	2007
Balance at beginning of year	31,118	21,432
Addition	10,759	18,482
Recognized as income	(14,631)	(8,796)
Balance at end of year	27,246	31,118

8 Accounts payable

In thousand drams	As of December 31, 2008	As of December 31, 2007
Payables to contractors	113,410	169,504
Taxes payable	2,082	5,724
Advances to beneficiaries	11,945	52,095
Other	4,108	3,566
	131,545	230,889

9 Deferred income

In thousand drams

	2008	2007
Balance at beginning of year	28,387	156,684
Additions	2,093,617	1,927,957
Borrowings repaid/(provided), net	(197,248)	(744,173)
Revenue redemption	(98,874)	(109,065)
Repayment of the amounts provided by the RA Government	(128,266)	-
Transferred to the grants related to assets	(10,759)	(18,482)
Grants recognized as income	(1,164,827)	(1,184,534)
Balance at end of year	522,030	28,387

Additions
Additions include amounts provided to pursue the objectives of the Project

The financing is received from the following sources:

- The World Bank,
- The RA Government

Borrowings repaid(provided)
These include the differences between the amounts provided to commercial banks and those repaid.

In 2008 provided borrowings amounted to drams 351,385 thousand (2007: drams 744,173 thousand) and repaid borrowings amounted to drams 154,135 thousand (2007: nil).

Redemption of receivables

Within the scope of the agency contract all chargeable services were rendered for the implementation of the Projects' objectives. The amount of sales consists of the number of invoices presented to the RA Ministry of Finance and Economy.

In 2008 income and respectively receivables amounted to drams 98,874 thousand (2007: drams 109,065 thousand).

Redemption of the RA Government financing.

The redemption of the amounts receivable from the RA Government depends on the amounts recovered during the reporting period against the amounts disbursed during the previous period to pursue the objectives of the Project.

10 Operating income

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Income recognized from deferred income	1,164,827	1,184,534
Income recognized from grant related to assets	14,631	18,482
Income recognized from advances to beneficiaries	59,000	-
Income from the financing of RA Government	79,091	126,859
	1,317,549	1,329,875

Income recognized from advances to beneficiaries
During 2008 the Fund disbursed drams 59,000 thousand from advances to beneficiaries of "Gas and Heating Project".

Income from the financing of the RA Government
Income from the RA Government financing includes amounts disbursed by the Fund to pursue the objectives of the Project, which are subject to be reimbursed.

11 Project expenses

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
"Urban Heating Project"	823,599	1,068,830
"Renewable Energy Project"	211,880	101,549
"Gas and Heating Project"	265,066	309,758
	1,300,545	1,480,137

12 Income tax expense

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Current tax	21,838	11,008
Deferred tax	-	-
	21,838	11,008

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2008	Effective tax rate (%)	Year ended December 31, 2007	Effective tax rate (%)
Profit before taxation (under IFRS)	112,145		(158,717)	
Tax calculated at a tax rate of 20% (2007: 20%)	22,429	20	(31,743)	20
(Non-taxable)/non-deductible items, net	(591)	(0.5)	42,751	(26.9)
Income tax expense	21,838	19.5	11,008	(6.9)

13 Subsequent events

On March 3, 2009 the Central Bank of Armenia has decided not to interfere in exchange market and to go back to floating exchange rate. This change (exchange rate of dram against US dollar has been depreciated 21.7% during one day) has not affected the exchange rate risk and financial position of the Fund in 2009 due to the fact that the main part of the Fund's payables is denominated in Armenian dram. See note 15.1, where is presented exchange rate risk of Fund as of reporting date.

14 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.

14.1 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.

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 RA Government and redirected those amounts to commercial banks as borrowings (refer to note 5).

The assets and liabilities generated from these borrowings (including interest receivables and payables) are recognized in the balance sheet of the Fund, because according to the contract signed between the Fund and the RA Ministry of Finance and Economy, the non redemption risks connected to those borrowings are carried by the Fund.

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

2008

In thousand drams	Current accounting	Without those borrowings
Assets		
Non-current assets		
Borrowings provided	1,287,823	6,990
Liabilities and fund balance		
Non-current liabilities		
Borrowings received	1,314,033	33,200

2007

In thousand drams	Current accounting	Without those borrowings
Assets		
Borrowings provided	1,084,920	3,360
Liabilities and fund balance		
Borrowings received	1,099,573	17,551

15 Financial instruments

15.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the note 3.

15.2 Categories of financial instruments

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

Financial assets

In thousand drams	As of December 31, 2008	As of December 31, 2007
Loans and receivables:		
Borrowings provided	1,287,823	1,084,920
Receivables	84,362	131,603
Bank balances	640,056	78,793
	2,012,241	1,295,316

Financial liabilities

In thousand drams	As of December 31, 2008	As of December 31, 2007
Financial liabilities measured at amortized costs:		
Loans and borrowings	1,314,033	1,099,573
Payables	117,518	173,070
	1,431,551	1,272,643

See note 3.5 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes.
The Fund's policies and the purposes for financial risks management instruments are presented in the note 15.

16 Financial risk management

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

16.1 Financial risk factors

a) Market risk

The fund's activities expose it primarily to the risks of changes in foreign currency exchange rates (see b below) and interest rates (see c below).

b) Foreign currency risk

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

The exposure of the Fund's financial assets and financial liabilities to the foreign currency risk is as follows:

Item	Armenian drams	Freely convertible currencies
2008		
Financial assets		
Borrowings provided	1,287,823	-
Receivables	59,950	24,412
Bank balances	143,107	496,949
	1,490,880	521,361
Financial liabilities		
Borrowings provided	1,312,428	1,605
Payables	117,518	-
	1,429,946	1,605
Net position	60,934	519,756

Item	Armenian drams	Freely convertible currencies
2007		
Financial assets		
Borrowings provided	932,810	152,110
Receivables	5,300	126,303
Bank balances	37,985	40,808
	976,095	319,221
Received loans	947,346	152,227
Payables	173,070	-
	1,120,416	152,227
Net position	(144,321)	166,994

The Fund is mainly exposed to US dollar and Euro exchange rates. The following table details the Fund's sensitivity to a 20% (2007:10%) increase and decrease in dram against US dollar. 20% (2007:10%) 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 20% (2007:10%) change in foreign currency rates.

The sensitivity analysis includes related party and non-related party loans. A positive number indicates an increase in profit or loss and other equity where dram strengthens against the relevant currency.

	US dollar impact	
	2008	2007
Profit or loss	103,951	5,488
	103,951	5,488

c) *Liquidity risk*

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 liabilities when those become due.

16.2 Fair values

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

17 Contingencies

17.1 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 and regional instability.

The international rating agency Moody's Investors Service has assessed Armenia's sovereign rating Ba2 "Stable Outlook" in its annual report produced at the end of 2008. According to the report, the country's low government debt and minimal refinancing risks are allowing its rating to maintain a stable outlook in the current environment. A weak revenue base is the main fiscal risk, although it is ameliorated by the very comfortable debt service profile, its good relations with its official creditors, and the liquidity provided by the Diaspora.

Due to smaller extent of the involvement of foreign capital in the equities of Armenian businesses, as well as the comparably small foreign investments in the Armenian economy and the isolation of its relevant sectors from the rest of the world, the ongoing financial crisis observable in more developed and mature economies is not particularly severe and observable in Armenia as of the reporting date.

However, in times of more severe market stress, the Armenian economy as well as the fund may be subject to that crisis and the effects of the crisis may be significant. The possible effects on the fund may include the decrease of grants, difficulties in obtaining funds, etc. All these problems may lead to the lessened liquidity of the Fund and, accordingly, to going concern problems. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Fund may be affected.

Accordingly, 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 current global crisis become observable and reliably measurable in Armenia.

17.2 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.

17.3 Tax contingencies

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.

18 Related party transactions

18.1 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, 2008	Year ended December 31, 2007
Salaries and bonuses, including contributions to Social State fund	18,932	14,967
	18,932	14,967