Grant Thornton

Independent Auditor's Report on the Financial Statements

Renewable Resources and Energy Efficiency Fund

December 31, 2009

Contents

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Independent auditor's report

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 "Foundation"), which comprise the statement of financial position as of December 31, 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 Foundation'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 Foundation'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 Foundation as of December 31, 2009, and of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

June 10, 2009

Gagik Gyulbudaghyan

Managing Partner

Emil Vassilyan, FCCA

Engagement partner

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

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.

Statement of financial position

In thousand drams	Note	As of December 31, 2009	As of December 31, 2008
Assets			
Non-current assets			
Property and equipment	4	23,370	38,247
Intangible assets		840	1,344
Prepayments		2,064	-
Borrowings provided	5	1,392,450	1,279,450
		1,418,724	1,319,041
Current assets			
Inventories		1,156	1,178
Receivables and advances	6	93,391	91,219
Borrowings provided	5	16	1,608
Cash and bank balances		1,025,539	640,056
		1,120,102	734,061
Total assets		2,538,826	2,053,102
Equity and liabilities			
Equity			
Accumulated profit		293,842	43,725
		293,842	43,725
Non-current liabilities			
Grants related to assets	7	15,095	27,246
Borrowings received	5	1,392,450	1,279,450
		1,407,545	1,306,696
Current liabilities			
Accounts payable	8	365,784	160,888
Borrowings received	5	3,313	5,240
Deferred income	9	455,716	522,030
Current income tax liabilities		12,626	14,523
		837,439	702,681
Total equity and liabilities		2,538,826	2,053,102

The financial statements were approved on March 2, 2010 by:

Tamara Babayan
Executive director

Larisa Dallakyan
Financial Manager

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 28.

Statement of comprehensive income

In thousand drams	Note	Year ended December 31, 2009	Year ended December 31, 2008
Income from operations	10	1,193,226	1,317,549
Other income		133,379	120,716
Project expenses	11	(1,177,581)	(1,300,545)
Administrative expenses		(70,769)	(78,932)
Other expenses		-	(14,690)
Results from operating activities		78,255	44,098
Finance income		79,613	81,580
Finance costs		(12,033)	(14,394)
Other financial items	12	133,449	861
Profit before income tax		279,284	112,145
Income tax expense	13	(29,167)	(21,838)
Profit for the year		250,117	90,307
Other comprehensive income		-	-
Total comprehensive income for the year		250,117	90,307

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 9 to 28.

Statement of changes in equity

In thousand drams	Accumulated profit/(loss)	Total
as of January 1, 2008	(46,582)	(46,582)
Profit for the year	90,307	90,307
Total comprehensive income for the year	90,307	90,307
as of December 31, 2008	43,725	43,725
Profit for the year	250,117	250,117
Total comprehensive income for the year	250,117	250,117
as of December 31, 2009	293,842	293,842

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 28.

Statement of cash flows

In thousand drams	Year ended December 31, 2009	Year ended December 31, 2008
Cash flows from operating activities		
Profit for the year	250,117	90,307
Adjustments		
Depreciation and amortization	15,381	15,157
Finance costs	12,033	14,394
Finance income	(79,613)	(81,580)
Income tax expense	29,167	21,838
Income from grants	(1,110,581)	(1,179,458)
Operating loss before working capital changes	(883,496)	(1,119,342)
Change in inventories	22	192
Change in receivables and advances	(4,236)	48,695
Change in payables	204,896	(70,001)
	(682,814)	(1,140,456)
Income tax paid	(31,064)	(12,916)
Interest paid	(13,960)	(11,273)
Net cash used in operating activities	(727,838)	(1,164,645)
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-	(10,759)
Grants received	1,326,442	2,093,617
Grants utilized	(294,326)	(424,388)
Interest received	81,205	67,438
Net cash from investing activities	1,113,321	1,725,908
Cash flows from financing activities		
Proceeds from loans and borrowings	113,000	357,432
Repayment of loans and borrowings	(113,000)	(357,432)
Net cash from financing activities	-	-
Net increase in cash and cash equivalents	385,483	561,263
Cash and cash equivalents at the beginning of the year	640,056	78,793
Cash and cash equivalents at the end of the year	1,025,539	640,056

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 28.

Notes to the financial statements

1 Nature of operations and general information

Renewable Resources and Energy Efficiency Fund (the "Foundation") 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 Foundation is a non-for-profit organization. The founder of the Foundation is the Republic of Armenia (the "Founder").

The objectives of the Foundation 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 Foundation implements the following projects:

- Urban Heating Project, which is financed under the 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.

- Gas and Heating Project, which is financed under the Grant Agreement dated April 28, 2006 signed between the International Bank for Reconstruction and Development and the Foundation. The objective of the Project is to improve the access to gas and heating services for the eligible households in urban multi-apartment buildings.

- 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.

- 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.

- Global Environment Facility Project (GEF PPG Grant TF 093563), 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.

Within the framework of the Urban Heating Project the Republic of Armenia government should allocate borrowings through the Foundation. The Foundation agreed to provide its borrowings to potential beneficiaries, which are financial institutions such as banks or credit organizations.

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

a) management bodies of multi-apartment buildings;

b) economic entities;

c) secondary schools;

d) individuals.

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

- according to the contract, the Foundation shall carry out legal and other activities for the implementation of the Project on behalf of the RA Government;

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

- the Foundation 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 Foundation during 2009 was 20 (2008: 20).

The Foundation'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").

In presenting the financial statements in accordance with IFRS only additional disclosures have been made in accordance with IFRS 7 "Financial Instruments: Disclosures", which relates to financial instruments and financial risk management disclosed in the notes 15 and 16.

Currently, IFRS do not contain specific guidance for non-profit organizations 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 polices 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.*

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 Foundation's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Foundation.

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 Foundation has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2009.

Standards affecting presentation and disclosure

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

IAS 1 (revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. The Foundation elected to prepare a single statement of comprehensive income with subtotal, instead of two separate statements (a separate income statement followed by a statement of other comprehensive income).

Standards and Interpretations in issue but not yet adopted

Amendments to IAS 17 *Leases*

As part of Improvements to IFRSs 2009 issued in April 2009, the IASB amended the requirements of IAS 17 regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' using the general principles of IAS 17. These amendments are effective for annual periods beginning on or after January 1, 2010, and they are to be applied retrospectively to unexpired leases at January 1, 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on January 1, 2010 (i.e. the date of adoption of the amendments) and the Foundation will recognize assets and liabilities related to land leases newly classified as finance leases at their fair values on that date; any difference between those fair values will be recognized in retained earnings.

The management anticipates that these amendments will be adopted in the Foundation's financial statements for the period beginning January 1, 2010. The management has not yet considered the potential impact of the adoption of these amendments.

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 377.89 drams for 1 US dollar as of December 31, 2009 (December 31, 2008: 306.73 drams for 1 US dollar). 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 the statement of comprehensive income for the period.

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs.

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.

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 Foundation 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 Foundation becomes a part to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs.

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.

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

i Borrowings provided

Borrowings are recognized initially at fair value, net of transaction costs associated with the borrowing. Subsequent to initial recognition, borrowings are stated at amortized cost.

Borrowings, provided by the Foundation to commercial banks within the framework of the agreement signed with the Republic of Armenia government, are recorded in the statement of financial position of the Foundation as financial assets, although the Foundation acts as an agent in this transaction.

ii 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 in the period when their collection is considered probable.

iii Cash and bank balances

The Foundation's cash and bank balances comprise cash in hand, bank accounts and cash in transit, which fall into "loans and receivables" category of financial instruments.

Financial liabilities

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

iv Borrowings received

Borrowings received are recognized initially at fair value, net of issuance costs associated with the borrowing. 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.

v Payables

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

3.6 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.

3.7 Grants related to assets

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

Grants whose primary condition is that the Foundation should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to the statement of comprehensive income on a systematic and rational basis over the useful lives of the related assets.

3.8 Deferred income

Financing received within the framework of projects implemented by the Foundation are recognized in the statement of financial position as deferred income under current liabilities since at the point of receipt of financing the directions how the resources will be utilized are not defined.

Deferred income is decreased by the amount, which is used for borrowings; these amounts are recognized as "Borrowings provided"(refer to note 3.5 for the accounting policy of borrowings).

Amounts received by the Foundation as redemption of the borrowings provided are accrued in deferred income, since at the point of receipt the directions how the resources will be utilized are not defined.

Grants that are receivable as compensation for expenses already incurred are recognized in the period in which they become receivable.

The other amounts are recognized as income on a systematic basis in the period in which amounts disbursed within the scope of the projects are reimbursed.

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

The assets and services received by the Foundation 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.

3.10 Income

The Foundation receives income from different sources in the framework of different projects. The policies for the utilization of deferred income and grants related to assets are described in the notes 3.7 and 3.8, respectively.

The finance income relates to interests earned on borrowings provided by the Foundation.

According to the agency contact signed between the RA and the Foundation, the Foundation is obliged to pursue the objective of the projects on the request, on behalf and at the expense of the RA. Expenses incurred are covered by the Ministry of Finance and recognized as income in the period in which the appropriate service is rendered (included in other income).

4 Property and equipment

In thousand drams

	Machinery and equipment	Vehicles	Other	Total
Cost				
as of January 1, 2008	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
as of December 31, 2009	32,228	22,771	11,346	66,345
Accumulated depreciation				
as of January 1, 2008	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
Charge for the year	8,054	4,554	2,269	14,877
as of December 31, 2009	23,347	12,031	7,597	42,975
Carrying amount				
as of December 31, 2008	16,935	15,294	6,018	38,247
as of December 31, 2009	8,881	10,740	3,749	23,370

During the reporting period the depreciation expense amounting to drams 14,877 thousand (2008: drams 14,653 thousand) was included in administrative expenses.

As of December 31, 2009 and December 31, 2008 the Foundation does not have any pledged property and equipment.

5 Borrowings provided and received

In accordance with the 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.

The Government of the Republic of Armenia has agreed with the IDA to allocate the borrowings through the Foundation. The Foundation has agreed to provide the funds received as a borrowing to Participating Financial Institutions, which are either 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 RA Ministry of Finance and Economy and the Foundation. The maturity period of each part of the loan is seven years. The Foundation 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 2009 borrowings provided to the Foundation amounted to drams 113,000 thousand (2008: drams 351,582 thousand).

In 2009 the Foundation signed contracts on borrowing with "ACBA Credit Agricol Bank" CJSC, "Ardshininvestbank" CJSC and "Cascade Bank" CJSC.

During 2009 the Foundation has provided drams 113,000 thousand to "ACBA Credit Agricol Bank" CJSC (2008: drams 350,000 thousand).

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.

Under the agency contract signed between the RA Ministry of Finance and Economy and the Foundation, 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 RA Ministry of Finance and Economy. The principal amount is directed to be used as sub-loan resources, defined by the additional borrowing agreement.

As presented in the note 3.5, the amounts borrowed from the RA Government and allocated to commercial banks are recognized in the statement of financial position of the Foundation, considering the fact that the Foundation 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.

The Foundation has signed an additional contract on borrowing with "Cascade UCO" CJSC.
During 2009 the Foundation has provided US dollars 1,216,532 (2008: US dollars 1,902,667) to "Cascade UCO" CJSC. However, these amounts were not reflected in the financial statements of the Foundation. In 2009 it was signed an additional amendment on changes of the contractual part, since "Cascade UCO" CJSC was merged with "Cascade Bank" CJSC.

5.1 Borrowings provided

In thousand drams	As of December 31, 2009	As of December 31, 2008
Borrowings provided	1,392,466	1,281,058
Including:		
Long-term portion	1,392,450	1,279,450
Short-term portion	16	1,608

Borrowings mature in 7 years and bear a weighted average interest rate of 6.6% annually (2008: 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, 2009	As of December 31, 2008
6 months or less	16	225
6-12 months	-	1,383
1-5 years	929,450	936,450
Over 5 years	463,000	343,000
	1,392,466	1,281,058

Interests receivable are included in the amount of borrowings and amount to drams 16 thousand as of December 31, 2009 (2008: drams 225 thousand).

The carrying amounts of borrowings provided to banks are presented below:

In thousand drams	As of December 31, 2009	As of December 31, 2008
"ACBA Credit Agricol Bank" CJSC	1,392,466	1,279,667
"Cascade Bank" CJSC	-	1,391
	1,392,466	1,281,058

5.2 Borrowings received

In thousand drams	As of December 31, 2009	As of December 31, 2008
Borrowings received	1,395,763	1,284,690
Including:		
Long-term portion	1,392,450	1,279,450
Short-term portion	3,313	5,240

Borrowings mature in 7 years and bear a weighted average interest rate of 1% annually (2008: 1% annually).

The maturity periods for the borrowings are as follows:

In thousand drams	As of December 31, 2009	As of December 31, 2008
6 months or less	3,313	3,857
6-12 months	-	1,383
1-5 years	929,450	936,450
Over 5 years	463,000	343,000
	1,395,763	1,284,690

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.

As of December 31, 2009 interests payable amounted to drams 3,313 thousand (2008: drams 3,857 thousand).

6 Receivables and advances

In thousand drams	As of December 31, 2009	As of December 31, 2008
Receivables from the RA Government and the World Bank (refer to note 10)	79,150	78,172
Other	14,241	13,047
	93,391	91,219

Receivable from the RA Government and the World Bank consists of accrued expenses which are subject to subsequent redemption by the RA Government and the World Bank based on existing agreement. Management believes that this amount is fully recoverable.

7 Grants related to assets

In thousand drams	2009	2008
Balance at beginning of year	27,246	31,118
Additions (refer to note 4)	-	10,759
Recognized as income (refer to note 10)	(12,151)	(14,631)
Balance at end of year	15,095	27,246

8 Accounts payable

In thousand drams	As of December 31, 2009	As of December 31, 2008
Payables to contractors	233,434	113,410
Taxes payable	13,576	2,082
Payables to the State budget against borrowings redeemed	92,263	29,343
Advances from beneficiaries	19,400	11,945
Other	7,111	4,108
	365,784	160,888

Payables to contractors include gas access, instalation of gas stoves as well as payables for consulting and other services.

Payables to the State budget against borrowings redeemed include repayments made against provided borrowings, which were not included in the financial statements of the Foundation

9 Deferred income

In thousand drams

	2009	2008
Balance at beginning of year	522,030	28,387
Additions	1,326,442	2,093,617
Borrowings repaid/(provided), net	(111,617)	(197,248)
Recovery of receivables from the RA Ministry of Finance	(98,874)	(98,874)
Recovery of the financing to be received from the RA Government and the World Bank	(83,835)	(128,266)
Transferred to the grants related to assets	-	(10,759)
Use of deferred income (refer to note 10)	(1,098,430)	(1,164,827)
Balance at end of year	455,716	522,030

Additions

Additions include amounts received to pursue the objectives of the Project (refer to note 1).

The financing is received from the following sources:

- The World Bank,
- The RA Government.

Borrowings repaid(provided)

In 2009 provided borrowings amounted to drams 113,000 thousand (2008: drams 351,385 thousand) and repaid borrowings amounted to drams 1,383 thousand (2008: drams 154,137 thousand).

Recovery of receivables from the RA Ministry of Finance

Within the scope of the agency contract signed between the Foundation and the Republic of Armenia, the Foundation submitted invoices to the RA Ministry of Finance.

Receivables that arise from the submitted invoices are covered from the deferred income. In 2009 this amounted to drams 98,874 thousand (2008: drams 98,874 thousand).

Recovery of the financing to be received from the RA Government and the World Bank

Amounts disbursed at the expense of the Foundation for the implementation of projects have to be reimbursed by the funds to be received from the RA Government and the World Bank. The recovered amounts are repaid from the funds disbursed by the Foundation.

10 Income from operations

In thousand drams	Year ended December 31, 2009	Year ended December 31, 2008
Use of deferred income	1,098,430	1,164,827
Income recognized from grant related to assets	12,151	14,631
Income recognized from advances to beneficiaries	-	59,000
Income from the financing of RA Government and the World Bank	79,150	79,091
Other	3,495	-
	1,193,226	1,317,549

Income from the financing of the RA Government and the World Bank
Amounts disbursed by the Foundation to pursue the objectives of the projects are subject to be reimbursed by the RA Government and the World Bank and recognized as income from operations.

11 Project expenses

In thousand drams	Year ended December 31, 2009	Year ended December 31, 2008
Urban Heating Project	415,794	823,599
Renewable Energy Project	165,680	211,880
Gas and Heating Project	390,856	265,066
Global Environment Facility Project	205,251	-
	1,177,581	1,300,545

12 Other financial items

In thousand drams	Year ended December 31, 2009	Year ended December 31, 2008
Gain/(loss) from exchange rate differences		
Financial liabilities measured at amortized cost	(2,009)	(571)
Borrowings and receivables	135,458	1,432
	133,449	861

13 Income tax expense

In thousand drams	Year ended December 31, 2009	Year ended December 31, 2008
Current tax	29,167	21,838
Deferred tax	-	-
	29,167	21,838

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2009	Effective tax rate (%)	Year ended December 31, 2008	Effective tax rate (%)
Profit before taxation (under IFRS)	279,284		112,145	
Tax calculated at a tax rate of 20% (2008: 20%)	55,857	20	22,429	20
(Non-taxable)/non-deductible items, net	(26,690)	(9.6)	(591)	(0.5)
Income tax expense	29,167	10.4	21,838	19.5

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 Foundation 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 Foundation and the Ministry of Finance and Economy of the Republic of Armenia, the Foundation 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 statement of the financial position of the Foundation, because according to the contract signed between the Foundation and the RA Ministry of Finance and Economy, the non redemption risks connected to those borrowings are carried by the Foundation.

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

2009

In thousand drams	Current accounting	Without those borrowings
Assets		
Non-current assets		
Borrowings provided	1,392,466	16
Liabilities		
Borrowings received	1,395,763	3,313

2008

In thousand drams

	Current accounting	Without those borrowings
Assets		
Non-current assets		
Borrowings provided	1,281,058	255
Liabilities		
Borrowings received	1,284,690	5,240

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 3.5.

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, 2009	As of December 31, 2008
Loans and receivables:		
Borrowings provided	1,392,466	1,281,058
Receivables	85,538	85,292
Bank balances	1,025,539	640,056
	2,503,543	2,006,406

Financial liabilities

In thousand drams	As of December 31, 2009	As of December 31, 2008
Financial liabilities measured at amortized costs:		
Loans and borrowings	1,395,763	1,284,690
Payables	332,808	146,861
	1,728,571	1,431,551

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 Foundation made a reclassification in 2009 related to the disclosure of financial assets and liabilities, which were adjusted in 2008.

16 Financial risk management

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

16.1 Financial risk factors

a) Market risk

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

b) Foreign currency risk

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

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

Item 2009	Armenian drams	Freely convertible currencies
Financial assets		
Borrowings provided	1,392,466	-
Receivables	85,538	-
Bank balances	362,871	662,668
	1,840,875	662,668
Financial liabilities		
Borrowings provided	1,393,769	1,994
Payables	332,808	-
	1,726,577	1,994
Net position	114,298	660,674

Item 2008	Armenian drams	Freely convertible currencies
Financial assets		
Borrowings provided	1,281,058	-
Receivables	60,880	24,412
Bank balances	143,107	496,949
	1,485,045	521,361
Financial liabilities		
Borrowings provided	1,283,085	1,605
Payables	146,861	-
	1,429,946	1,605
Net position	55,099	519,756

The Foundation is mainly exposed to US dollar and Euro exchange rates. The following table details the Foundation's sensitivity to a 10% (2008:20%) increase and decrease in dram against US dollar.

10% (2008:20%) 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% (2008:20%) change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where dram strengthens against the relevant currency.

	US dollar impact	
	2009	2008
Statement of comprehensive income	66,067	103,951

c) Liquidity risk

The Foundation'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.

17 Commitments

17.1 Operating lease commitments

The Foundation as lessor

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

Non-cancelable operating lease receivables are disclosed below:

In thousand drams	As of December 31, 2009	As of December 31, 2008
Not later than 1 year	18,000	18,000
1-5 years	18,000	36,000
	36,000	54,000

18 Contingencies

18.1 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 Foundation 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 Foundation 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 Foundation may be affected.

The financial statements of the Foundation 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.

18.2 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 Foundation 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 Foundation property or relating to the Foundation operations. Until the Foundation 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 Foundation's operations and financial position.

18.3 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.

19 Related party transactions

19.1 Transactions with management and close family members

The Foundation'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, 2009	Year ended December 31, 2008
Salaries and bonuses	20,109	18,932

20 Reclassification of comparative financial statements

In 2009 the comparative financial statements for 2008 have been reclassified to include the items, as explained in the table below:

As a result, certain items in the statement of financial position have been reclassified, which had no effect on the results of financial performance of the Foundation.

	Before reclassification	Reclassification	After restatement
Receivables and prepayments	84,454	6,765	91,219
Borrowings provided/current	8,373	(6,765)	1,608
Borrowings received	1,279,450	(29,343)	1,250,107
Payables	131,545	29,343	160,888
Finance income	114,940	(33,360)	81,580
Other income	4,964	33,360	38,324