Financial Statements and Independent Auditor's Report

Armenia Renewable Resources and Energy Efficiency Fund

31 December 2017

Contents

Grant Thornton

Independent auditor's report

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To the Board of Trustees of Armenia Renewable Resources and Energy Efficiency Fund

Opinion

We have audited the financial statements of Armenia Renewable Resources and Energy Efficiency Fund (the "Fund"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton Audit SRL, Romania

Grant Thornton

20 April 2018

Emil Vassilyan, FCCA
Engagement Partner
Grant Thornton CJSC
Gagik Gyulbudaghyan
Managing Partner
Grant Thornton CJSC

Statement of financial position

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016
Assets			
Non-current assets			
Property and equipment	4	186,270	247,783
Intangible assets		6,429	5,078
Accounts receivable	5	3,116,241	3,143,342
Borrowings provided	6	33,156	-
		3,342,096	3,396,203
Current assets			
Inventories		14,129	13,380
Accounts receivable	5	613,721	782,061
Borrowings provided	6	4,974	548
Term deposits	7	339,073	-
Current income tax assets		4,021	104
Cash and bank balances	8	520,314	979,403
		1,496,232	1,775,496
Total assets		4,838,328	5,171,699
Liabilities and net assets			
Non-current liabilities			
Grants related to assets	9	187,207	247,052
Borrowings received	10	3,815,674	3,894,816
		4,002,881	4,141,868
Current liabilities			
Borrowings received	10	84,046	60,287
Deferred income	11	381,028	138,643
Accounts payable	12	206,706	563,753
		671,780	762,683
Net assets			
Accumulated result		163,667	267,148
		163,667	267,148
Total liabilities and net assets		4,838,328	5,171,699

The financial statements were approved on 20 April 2018 by:

Ruben Gevorgyan

Director

Siranush Gorgyan

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 34.

Statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2017	Year ended 31 December 2016
Income from grants	13	625,220	3,769,323
Finance income	14	10,104	22,435
Income from services	15	88,825	57,167
Other income		27,328	13,737
Project expenses	16	(630,302)	(3,423,526)
Administrative expenses	17	(183,144)	(187,879)
Finance costs	10	(29,678)	(29,806)
Result from operating activities		(91,647)	221,451
Impairment losses on borrowings provided	6	(4,318)	(15,357)
Interest income from term deposits		5,851	48,047
Other financial results	18	(3,186)	(25,392)
Result before taxes		(93,300)	228,749
Income tax expense	19	(10,181)	(18,838)
Result for the year		(103,481)	209,911
Other comprehensive result		-	-
Total comprehensive income/(loss) for the year		(103,481)	209,911

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

Statement of changes in net assets

In thousand drams	Accumulated Result	Total
as of 1 January 2016	57,237	57,237
Result for the year	209,911	209,911
Total comprehensive income for the year	209,911	209,911
as of 31 December 2016	267,148	267,148
		-
Result for the year	(103,481)	(103,481)
Total comprehensive income/(loss) for the year	(103,481)	(103,481)
as of 31 December 2017	163,667	163,667

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

Statement of cash flows

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Result for the year	(103,481)	209,911
Adjustments for:		
Depreciation and amortization	65,605	45,228
Income tax expense	10,181	18,838
Finance costs	29,678	29,806
Interest income from borrowings and bank balances	(10,104)	(22,435)
Interest income from term deposits	(5,851)	(48,047)
Income from grants	(625,220)	(3,769,323)
Movement of the allowance for bad and doubtful borrowings	2,647	15,357
Foreign exchange rate losses	3,186	25,392
Operating result before working capital changes	(633,359)	(3,495,273)
Change in receivables	150,462	(1,791,160)
Change in inventories	(749)	(10,521)
Change in payables	(358,695)	287,837
Cash used in operations	(842,341)	(5,009,117)
Interest paid	(29,606)	(29,853)
Income tax paid	(14,098)	(22,289)
Net cash used in operating activities	(886,045)	(5,061,259)
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(5,443)	(241,157)
Repayments of term deposits/(term deposits invested), net	(95,128)	1,913,986
Grants received and return of grants, net	852,574	3,466,092
Interest income received	13,594	73,285
Repayments of borrowings/(borrowings provided), net	(38,001)	151,471
Net cash from investing activities	727,596	5,363,677
Cash flows from financing activities		
Repayment of borrowings	(57,615)	(54,877)
Net cash used in financing activities	(57,615)	(54,877)
Net increase/(decrease) in cash and bank balances	(216,064)	247,541
Foreign exchange effect on cash	(975)	(4,338)
Cash and bank balances at the beginning of the year	979,403	736,200
Cash and bank balances at the end of the year (refer to note 25)	762,364	979,403

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 34.

Notes to the financial statements

1 Nature of operations and general information

Armenia Renewable Resources and Energy Efficiency Fund (the "Fund") has been established in accordance with the resolution N799 of the Government of the Republic of Armenia dated 28 April 2005. The founder of the Fund (the "Founder") is the Republic of Armenia.

The objectives of the Fund are to:

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

On 30 July 2012 a new Agency agreement was signed between the Fund and the MoF, pursuant to resolution 174-N of the Government of the Republic of Armenia dated 16 February 2012, whereby the Fund agrees to implement Energy Efficiency and Renewable Energy Financing Project.

This project envisages the following components:

Component 1 Program funds are provided to the participant financial institutions to finance investments by qualifying beneficiaries in energy efficiency and renewable energy projects.

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

In 2016-2017 the Fund implemented the following projects:

- "Energy Efficiency Project" was financed by the World Bank at the amount of US dollar 2.12 million, as well as by the Armenia Renewable Resources and Energy Efficiency Fund at the amount of US dollar 8.5 million using the available working capital resources. The working capital consists of the amounts provided to the Fund according to the agency agreement signed between the Fund and the Ministry of Finance on 30 July 2012, which were provided to the Fund to implement the Renewable Resources and Energy Efficiency Project. The Grant Project has been completed on 30 June 2016, however, the Project implementation is continued with the use of the working capital resources. In particular, during 2016-2017 certain energy efficiency events were organized in the penitentiary institutions of Erebuni, Nubarashen and Armavir under the Ministry of Justice of the Republic of Armenia, as well as in Qanaqer-Zeytun medical center, in Hrazdan municipality and in Hrazdan pre-school educational institutions No. 12 and 13, in Armenian-Russian (Slavonic) University and in Yerevan Dancing Art State College.

- "Project Preparation for Industrial Scope Solar Power Project", which is financed through project preparation grant dated 30 June 2015 signed between the Government of the Republic of Armenia and International Bank for Reconstruction and Development. The goal of the project is to support the Republic of Armenia for the preparation of the expected project on industrial scope of solar energy, which includes the determining possible locations of solar power stations, conducting technical and business feasibility study of possible locations, mapping initial resources, assessing the capability to connect to local set, and assessing connection costs.

- "Geothermal Exploratory Drilling Project", which is financed by the Grant Agreement TF0A0544 dated 16 June 2015 signed between the Government of the Republic of Armenia and the International Bank for Reconstruction and Development. The goal of the project is to perform exploratory drilling in Qarqar, a possible geothermal location, in order to assess the sufficiency of resources, approve the quality and attract the private sector to build a geothermal station. The ultimate goal of the project is to build geothermal station in Qarqar.

- In 2017 "Community Based Energy Efficiency Improvement Project for Legal and Physical Entities in Non-gasificated Communities in Armenia"- Armenia Renewable Resources and Energy Efficiency Fund, "ACBA LEASING" CO CJSC, "Converse Bank" CJSC and "Global Credit" UCO CJSC signed contracts on energy efficiency improvement project in non-gasificated communities in Armenia. The purpose of the Project is the financing of investments in the pure energy sphere with the help of financial institutions. This is aimed at improving the energy-efficiency level in 280 communities of Armenia. The Project also pursues the objective to finance the investments in the sphere of clean energy development.

- The purpose of "Community Energy Efficiency Project" realized by the "Community Energy Efficiency Project"- Armenia Renewable Resources and Energy Efficiency Fund together with "ACBA-Credit Agricole Bank" CJSC, "Converse Bank" CJSC, is to finance the investments directed to the implementation of energy efficiency projects in the communities of the Republic of Armenia. The Project also pursues the objective to decrease non-efficient energy consumption and to increase the usage of pure, efficient, secure and cheap energy technologies. The work implemented will decrease the monthly amount paid for the energy spent on the electricity and water-proofing equalling it to zero in the future.

- The purpose of the "Provision of Engineering Advisory Services in the framework of German-Armenian Fund Project "Energy Efficiency for MSMEs"" Project (financed by KfW) is to support the financing of energy efficiency events in MSMEs of Armenia.

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

The average number of employees of the Fund during 2017 was 19 (2016: 15).

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Group operates on a going concern basis.

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

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, and fair values, as applicable.

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 IFRSs 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 note 20 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 1 January 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Fund.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2017

Disclosure Initiative (Amendments to IAS 7 *Statements of Cash Flows*)

The amendments to IAS 7, effective 1 January 2017, require the Fund to provide disclosures about the changes in liabilities from financing activities. The Fund categorizes those changes into changes arising from cash flows and non-cash changes with further sub-categories as required by IAS 7 (refer to note 26).

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

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

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

IFRS 9 *Financial Instruments*

The IASB released IFRS 9 *Financial Instruments*, representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Fund's management have yet to assess the impact of this new standard on the Fund's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 16 *Leases*

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Fund's management have not yet assessed the impact of IFRS 16 on these financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Fund initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the Fund shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRIC 23 Uncertainty over Income Tax Treatment

IFRIC 23 provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

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 484.10 drams for 1 US dollar and 580.10 drams for 1 euro as of 31 December 2017 (31 December 2016: 483.94 drams for 1 US dollar, 512.20 drams for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in the result 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. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

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

Depreciation is charged to the result for the year 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:

Machinery and equipment	-	4-5 years
Vehicles	-	5 years
Fittings	-	5 years
Other	-	1-5 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 result for the year or is added to the cost of other asset on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 5 years for the computer software.

3.4 Leased assets

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

3.5 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

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

3.6 Financial instruments

Recognition, initial measurement and derecognition

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.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets are divided into the following categories upon initial recognition:

- 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 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 the result or directly in other comprehensive income. Refer to note 21 for a summary of the Fund's financial assets by category.

Generally, the Fund recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognized in the result are presented within finance costs, finance income or other financial items, except for impairment of accounts receivables which is presented within other expenses.

i Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include accounts receivables, borrowings provided, as well as cash and bank balances.

Accounts receivable

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 (including from donors) are considered indicators that the receivable is impaired. The amount of 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 result of the reporting period. All accounts receivable for which collection is not considered probable are written-off.

Grants expected from donors are stated as receivables, when as of the reporting date there is reasonable assurance that they will be received. In the financial statements they are stated as grants receivables.

Borrowings provided

Targeted borrowings provided to financial and non-financial institution intermediaries and commercial banks are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment, and the difference between this cost and the final settlement cost is recognized in the statement of profit or loss and other comprehensive income during the borrowing period.

A provision for impairment of the borrowings is established, when there is an objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the borrowings. Significant financial difficulties of the borrowers and default and delinquency in payments are considered indicators that the borrowings are impaired.

The balance of the allowance is adjusted by recording a charge or income to the result of the reporting period. Any amount written-off with respect to borrower account balances is charged against the existing allowance for doubtful borrowings.

In the statement of cash flows the borrowings provided are stated as cash flows from investing activities.

Cash and bank balances

The Fund's cash and bank balances, also called cash equivalents, comprise cash in hand, bank accounts, designated account balances of the Central Treasury, cash in transit and short-term investments with a maturity period of less than 3 months.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Fund classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

ii Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity and include deposits at commercial banks. Investments are classified as held-to-maturity if it is the intention of the Fund's management to hold them until maturity.

Deposits are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the deposit has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the deposit are recognized in the result.

Classification and subsequent measurement of financial liabilities

The Fund's financial liabilities include borrowings and payables. A summary of the Fund's financial liabilities by category is given in note 21.

i Borrowings received

Borrowings received are recognized initially at fair value, net of issuance costs associated with the borrowings. Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the statement of profit or loss and other 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.

Partial or complete remittance of borrowings received is immediately recognized as income in the period, when such remittance becomes possible.

Management's estimates and assumptions on the borrowings received are disclosed in note 20.

In the statement of cash flows the borrowings received are stated as cash flows from financing activities.

ii Accounts payable

Accounts payables are stated at fair value and subsequently stated at amortized cost.

3.7 Impairment

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting 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 accounts receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available-for-sale equity instruments, 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 the result, 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.

3.8 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 with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to the result on a systematic and rational basis over the useful lives of the related assets.

Other grants are recognized as income 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 period in which they become receivable.

The grant provided to the Fund as a financial support (when no conditions are attached to the grant), is recognized in the result of the year when the Fund receives such a grant.

3.9 Income tax

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

3.10 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves;

When employees render services to the Fund during the accounting period, the Fund recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Fund shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Fund has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

3.11 Revenue recognition

Revenue of the Fund arises from the contributions received, rendered services, interests on the borrowings provided by the Fund, etc.

Income from grants

The recognition policy of income from grants is presented in note 3.8.

Rendering of services

This income is recognized, when services are provided, which is evidenced by documents approved by the counterparty. This income is included in "Income from rendering of services".

Interest income

Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4 Property and equipment

In thousand drams	Machinery and equipment	Vehicles	Computer equipment	Fittings and other	Total
Cost					
as of 1 January 2016	44,639	29,470	46,378	15,881	136,368
Additions	234,401	-	1,200	373	235,974
as of 31 December 2016	279,040	29,470	47,578	16,254	372,342
Additions	-	-	300	851	1,151
Disposals	-	-	(6,554)	(2,441)	(8,995)
as of 31 December 2017	279,040	29,470	41,324	14,664	364,498
Accumulated depreciation					
as of 1 January 2016	8,563	19,812	37,395	14,575	80,345
Charge for the year	38,145	2,934	2,025	1,110	44,214
as of 31 December 2016	46,708	22,746	39,420	15,685	124,559
Charge for the year	56,648	2,934	2,289	793	62,664
Eliminated on disposal	-	-	(6,554)	(2,441)	(8,995)
as of 31 December 2017	103,356	25,680	35,155	14,037	178,228
Carrying amount					
as of 31 December 2016	232,332	6,724	8,158	569	247,783
as of 31 December 2017	175,684	3,790	6,169	627	186,270

Depreciation expense has been allocated as follows:

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Administrative expenses	3,665	3,969
Project expenses	58,999	40,245
	62,664	44,214

As of 31 December 2017 the cost of the property and equipment of the Fund with nil carrying amount is drams 58,015 thousand (as of 31 December 2016: drams 66,860 thousand).

5 Accounts receivable

In thousand drams	As of 31 December 2017	As of 31 December 2016
Current		
Accounts receivable	592,092	620,167
Grants receivable	4,192	49,531
Advances and prepayments	16,562	111,288
Receivables from the State budget	875	1,075
	613,721	782,061
Non-current		
Accounts receivable from energy efficiency investments	3,116,241	3,143,342
	3,729,962	3,925,403

Advances and prepayments include the amounts paid to the following organizations:

In thousand drams	As of 31 December 2017	As of 31 December 2016
"Redinet" CJSC	-	35,920
"Magh Shinanyut" LLC	-	19,740
"Z Profile" LLC and "Araratshin" LLC consortium	15,504	49,640
Other	1,058	5,988
	16,562	111,288

As of 31 December 2017 advances include the amounts paid for the construction works at the amount of drams 15,504 thousand (as of 31 December 2016: drams 105,300 thousand).

Current accounts receivable include the amounts receivable from the following services:

In thousand drams	As of 31 December 2017	As of 31 December 2016
Receivables from rendering of consulting services	12,605	1,823
Receivables from rendering of energy efficiency services	579,487	618,344
	592,092	620,167

Receivables from energy efficiency investments and services consist of the following components:

In thousand drams	As of 31 December 2017		As of 31 December 2016	
	Current	Non-current	Current	Non-current
Energy efficiency investments	577,271	3,116,241	613,785	3,143,342
Energy service	2,216	-	4,559	-
	579,487	3,116,241	618,344	3,143,342

The description of receivables from services on energy efficiency is disclosed below.

According to the resolution No. 174-N of the Government of the Republic of Armenia dated February 16, 2012 and the agency contract concluded between the Fund and the Ministry of Finance of the Republic of Armenia in 2012, the Ministry of Finance of the Republic of Armenia has transferred cash resources to the Fund under its custody to further finance the implementation of energy efficiency and renewable energy project. These resources were provided to the Fund at the interest rate of 0.75% and with the maturity period until 2045. These resources are recognized in the statement of financial position as borrowings received, and the accrued interest expenses on these funds received are presented in the statement of profit or loss and other comprehensive income as finance costs (refer to note 10).

The Fund implements the "Energy Efficiency Project" using the resources received in its custody from the Ministry of Finance of the Republic of Armenia as well as those received from the Grant agreement TF012163 concluded between the International Bank for Reconstruction and Development and the Government of the Republic of Armenia on 20 April 2012. In the framework of the Project the Fund makes investments in public facilities in the form of rendering of services, which consist of two components:

a) energy efficiency investments; and

b) energy services.

These services are provided by the Fund as follows:

- the Fund selects beneficiaries (public facilities) which have functional and realistic mechanisms available to secure the timely redemption of the borrowed resources, then the Fund concludes contracts with contractors, which oblige the contractors to implement construction works in the public facilities selected in advance to ensure the defined energy efficiency level (component 1-energy efficiency investments);
- the Fund implements preparation, investigation in the energy sector, procurement, financial management, monitoring, energy efficiency measurements and assurances, as well as other services in relation to "Energy Efficiency Project" (component 2-power services).

In order to implement energy efficiency services the Fund, together with the contract with the contractor, concludes energy efficiency services provision contract with the beneficiary (public facilities) as well. This contract defines the cost of energy efficiency services (energy efficiency investments and energy services) rendered by the Fund, as well as the redemption schedule for the deferred payments of this cost. As a result, in the statement of financial position the Fund recognizes both payables to the contractors and receivables on the services of energy efficiency (energy efficiency investments) related to the component 1. The Fund recognizes the receivables on energy services in relation to the component 2, when the services are provided. Income from energy services is presented in the statement of profit or loss and other comprehensive income under income from services (refer to note 15).

Net carrying amount of accounts receivable is the reasonable estimation of the fair value.

No interest is charged on receivables arising from rendered services. The Fund makes provisions for all receivables that are considered to be irrecoverable and considers all receivables on the basis of individual and collective impairment. All individually significant receivables are then individually assessed for impairment. If individual impairment evidence is not detected for all individually significant receivables then they are collectively assessed for impairment. Receivables that are not individually significant, they are collectively assessed for impairment by grouping the receivables with similar risk characteristics.

While determining the collective irrecoverability of receivables, the Fund considers previously existing trends and the maturity terms adjusted based on management's assumptions. The irrecoverability risk concentration is limited based on the large-scale customers and the fact of not being a related party.

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

As of 31 December 2017 and as of 31 December 2016 there are no impaired receivables or receivables which are past due but not impaired.

Refer to note 22 to disclose the currency of the receivables.

6 Borrowings provided

Name	Principal amount	Currency	Commencement date	Maturity date	Interest rate (%)	Balance as of December 31 (in thousand drams) 2017 Principal	2017 Interest	2016 Principal	2016 Interest	Interest income (in thousand drams) 2017	2016
"ACBA LEASING" CO CJSC	1,842,000	AMD	26.12.2017	08.01.2025	3%	1,842	1	-	-	1	-
"ACBA LEASING" CO CJSC	1,562,000	AMD	26.12.2017	09.01.2023	3%	1,562	1	-	-	1	-
"Global Credit" UCO	5,790,000	AMD	19.10.2017	06.10.2025	3%	5,790	14	-	-	38	-
"Global Credit" UCO	12,160,000	AMD	22.11.2017	21.11.2025	3%	12,160	30	-	-	43	-
"Global Credit" UCO	6,910,000	AMD	01.12.2017	30.11.2025	3%	6,910	17	-	-	17	-
"Global Credit" UCO	9,800,000	AMD	27.12.2017	26.12.2025	3%	9,800	3	-	-	3	-
"Acba-Credit Agricole Bank" CJSC	4,200,000	US dollar equivalent to AMD	15.06.2006	15.06.2016	5.9%-11.4%	-	-	-	548	-	12,811
"Ameriabank" CJSC	5,000,000	US dollar equivalent to AMD	13.07.2006	13.07.2016	2.5%-6.4%	-	-	-	-	-	854
Non-financial institution intermediaries	45,681	USD	01.04.2004	01.04.2014	5%	16,569	-	18,234	-	-	-
Non-financial institution intermediaries	185,535	USD	01.06.2010	01.06.2020	5%	86,075	19,595	86,047	15,313	4,281	4,259
Non-financial institution intermediaries	22,148	USD	01.06.2005	01.06.2015	5%	7,473	-	7,471	-	-	-
						148,181	19,661	111,752	15,861	4,384	17,924
Allowance for doubtful borrowings											
Non-financial institution intermediaries						(110,117)	(19,595)	(111,752)	(15,313)		
Carrying amount						38,064	66	-	548		

Movement of the allowance for doubtful borrowings is presented below:

In thousand drams	2017	2016
Balance at the beginning of the year	127,065	111,708
Increase in the allowance during the year	4,318	15,357
Derecognition of allowance (included in other income)	(1,671)	-
Balance at the end of the year	129,712	127,065

7 Term deposits

Name	Principal amount	Currency	Commence-ment date	Maturity date	Interest rate (%)	Balance as of December 31 (in thousand drams)			
						2017		2016	
						Principal	Interest	Principal	Interest
Term deposits									
"Araratbank" OJSC	99,940	USD	04.09.2017	05.09.2018	4.5%	48,381	170	-	-
"Araratbank" OJSC	100,000	USD	23.11.2017	26.11.2018	4.75%	48,410	38	-	-
"HSBC Bank Armenia" CJSC	500,000	USD	31.05.2017	28.02.2018	3.5%	242,050	24	-	-
						338,841	232	-	-

8 Cash and bank balances

In thousand drams	As of 31 December 2017	As of 31 December 2016
Current bank accounts	105,417	647,123
Designated accounts in the Central Treasury-agency contracts	46,420	173,512
Designated accounts in the Central Treasury-grant contracts	368,477	158,768
	520,314	979,403

Refer to note 22 for the currencies in which the Central Treasury and bank balances are denominated.

9 Grants related to assets

In thousand drams	2017	2016
Balance at the beginning of the year	247,052	331,396
Additions (property and equipment and intangible assets)	490	239,853
Energy efficiency investments	-	(86,068)
Realized to income (refer to note 13)	(60,335)	(238,129)
Balance at the end of the year	187,207	247,052

Additions of 2017 include property and equipment of drams 490 thousand (additions of 2016 include property and equipment of drams 235,601 thousand and intangible assets of drams 4,252 thousand).

In the framework of "Energy efficiency project" the energy efficiency investments are invested in public facilities (refer to note 5).

In the framework of "Energy efficiency project" the repayment amounts of energy efficiency investments are the return amounts of the investments made in the public facilities. This repayment is transferred to deferred income.

According to memorandum provided to the Fund in May 2016 by the World Bank, the "Energy Efficiency Project" is considered successful. Accordingly, the Fund has been given an opportunity to consider the resources received from the energy efficiency investments as own resources and use the funds originated from their return (repayments of energy efficiency investments) for the implementation of other energy efficiency projects. As a result, during 2016 drams 197,245 thousand from funds directed to energy efficiency investments were transferred to the statement of profit or loss and other comprehensive income as income.

The balance at the end of the year of the grants related to assets has arisen from the property and equipment and intangible assets.

10 Borrowings received

Name	Principal amount	Currency	Commencement date	Maturity date	Interest rate (%)	Balance as of December 31 (in thousand drams) 2017 Principal	2017 Interest	2016 Principal	2016 Interest	Interest expense (in thousand drams) 2017	Interest expense (in thousand drams) 2016
Ministry of Finance of the Republic of Armenia	1,740,568	Armenian dram	10.11.2015	10.11.2045	0.75%	1,667,495	1,781	1,702,299	1,731	12,752	12,962
Ministry of Finance of the Republic of Armenia	4,738	USD	10.11.2015	10.11.2045	0.75%	2,228,064	2,380	2,248,715	2,358	16,926	16,844
Total						3,895,559	4,161	3,951,014	4,089	29,678	29,806

Borrowings received are resources, which, according to the contract concluded between the Fund and the Ministry of Finance of the Republic of Armenia, are provided to the custody of the Fund by the Ministry of Finance of the Republic of Armenia for the implementation of "Energy Efficiency Project". In the framework of the Project the Fund makes energy efficiency investments in the public buildings. For the implementation of these investments the Fund concludes contracts with the beneficiaries; at the same time it concludes energy efficiency services provision contracts with the public facilities, which define the deferred redemption schedule of the cost of services to be rendered to public facilities.

Refer to note 22 for more information about the Fund's exposure to foreign currency risk.

11 Deferred income

In thousand drams	2017	2016
Balance at the beginning of the year	138,643	313,596
Additions	821,914	3,523,076
Return of grants	(14,154)	(11,585)
Transferred from grant related to assets	-	86,068
Transferred to grant related to assets	(490)	(239,853)
Income recognition (refer to note 13)	(564,885)	(3,531,194)
Other movements	-	(1,465)
Balance at the end of the year	381,028	138,643

The balance of deferred income at the end of the year consists of the following sources:

In thousand drams	As of 31 December 2017		As of 31 December 2016	
	International Development Association	RA Government	International Development Association	RA Government
"Solar power project preparation"	89,155	2,512	47,755	2,142
"Geothermal exploratory drilling project"	286,048	1,549	86,394	-
"Energy efficiency project"	1,764	-	2,352	-
	376,967	4,061	136,501	2,142

12 Accounts payable

In thousand drams	As of 31 December 2017	As of 31 December 2016
Payables on works and services	148,106	506,348
Advances from customers	42,021	28,091
Taxes and duties payable	8,824	21,775
Employee benefits	7,605	7,194
Other	150	345
	206,706	563,753

Payables on works and services include drams 133,266 thousand (2016: drams 473,836 thousand) arisen from the contracts concluded with the counterparties for the implementation of the "Energy efficiency project".

Taxes and duties payable include the balances on the following types of duties:

In thousand drams	As of 31 December 2017	As of 31 December 2016
Value Added Tax	4,913	10,309
Non-resident profit tax	-	7,769
Taxes on employees' benefits	3,837	3,638
Other	74	59
	8,824	21,775

No interest is charged on payables. The Fund has financial risk management policies to ensure that all payables are paid within the credit timeframe.

Refer to note 22 for more information about the Fund's exposure to foreign currency risk.

13 Income from grants

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Income from grants related to assets (refer to note 9)	60,335	238,129
Income from deferred income (refer to note 11)	564,885	3,531,194
	625,220	3,769,323

14 Finance income

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Interest income from borrowings provided (refer to note 6)	4,384	17,924
Interest income on bank account balances	5,720	4,511
	10,104	22,435

15 Income from services

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Consulting services	22,496	22,043
Energy services (refer to note 5)	62,559	34,916
Other	3,770	208
	88,825	57,167

16 Project expenses

In thousand drams	2017			2016		
	Grants	Funds	Total	Grants	Funds	Total
Geothermal exploratory drilling project"	120,331	-	120,331	2,955,354	-	2,955,354
"Solar power project preparation"	443,966	-	443,966	255,466	-	255,466
Energy efficiency project"	588	5,082	5,670	140,782	20,170	160,952
"Sustainable development project in Syunik region"	-	-	-	10,265	-	10,265
'Black Sea Basin 2007-2013 Energy Efficiency Project"	-	-	-	605	-	605
	564,885	5,082	569,967	3,362,472	20,170	3,382,642
)epreciation and amortization of the property and equipment	60,335	-	60,335	40,884	-	40,884
	625,220	5,082	630,302	3,403,356	20,170	3,423,526

17 Administrative expenses

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Employee benefits	83,914	95,928
Services received	22,073	33,434
Post and communication expenses	2,924	2,292
Trip and representation expenses	22,635	6,524
Office and utility expenses	2,618	4,936
Depreciation and amortization	4,616	4,345
Audit and consulting services	7,874	6,676
Bank and insurance charges	120	3,294
Lease expenses	14,692	13,332
Other	21,678	17,118
	183,144	187,879

18 Other financial items

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Loss from exchange differences on:		
Held-to-maturity investments	1,663	(21,014)
Loans and receivables	(1,041)	(5,182)
Financial liabilities measured at amortized cost	(3,808)	804
	(3,186)	(25,392)

19 Income tax expense

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Current tax	10,181	18,838
	10,181	18,838

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2017	Effective tax rate (%)	Year ended 31 December 2016	Effective tax rate (%)
Result before taxation (under IFRSs)	(93,300)		228,749	
Tax calculated at a tax rate of 20% (2016: 20%)	(18,660)	20%	45,750	20%
(Non-taxable)/non-deductible items, net	28,841	(31%)	(26,912)	(12%)
Income tax expense	10,181	(11%)	18,838	8%

20 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.

20.1 Critical accounting estimates

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from 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.

Useful lives of property and equipment

Management has estimated useful lives of the property and equipment. Management believes that estimated useful lives of the property and equipment are not materially different from economical lives of those assets. If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

Accounts receivable

- As described in note 5 receivables from rendering of energy efficiency services are generated by the implementation of energy efficiency investments in public facilities. Within the scope of these services the Fund enters into contracts with contractors that perform construction works on public facilities directed to energy efficiency. The Fund records the cost of energy efficiency investments on the basis of acts of acceptance on construction work submitted by the contractors as accounts receivable from public facilities and defines their repayment schedule.

  As of the reporting date the receivables from rendering of energy efficiency services also include the cost of construction works, which have not yet been fully completed, which means that tripartite (Fund-contractor-public facility) completion acts on construction works (certifying that construction works are also accepted by public facilities) are missing. Instead, there are only acts of acceptance on current construction works signed between two parties: the Fund and the contractor. Therefore, receivables related to constructions not yet fully completed are not attributable to a specific counterparty. However, the management of the Fund estimates that the construction works will be duly completed on time, and the probability that it will be accepted by public facilities is high. The receivables from rendering of energy efficiency services on constructions not yet completed amount to drams 132,881 thousand as of 31 December 2017 (31 December 2016: drams 116,920 thousand).

- Management believes that the carrying amounts of receivables from rendering of energy efficiency services (energy efficiency investments and energy services) approximate their fair values; accordingly they are not discounted using market rates, for the following reasons:

  - the Fund is a non-for profit organization, and it does not pursue a purpose to gain profit;
  - the amounts received for rendering of services are to be used for a predefined purpose;
  - the amounts are not under the control of the Fund,
  - due to the small size of the financial markets in Armenia, it is not practical to define a reasonable discount rate.

- Management believes that receivables from rendering of energy efficiency services (energy efficiency investments and energy services) are fully recoverable, and, therefore, have not been provided for, taking into account the past experience and the fact, that the counterparties are under the State control.

- Management believes that the receivables from rendering of energy efficiency services (energy efficiency investments and energy services) are the assets of the Fund and should be recorded as such in the statement of financial position (although legally the Fund is the agent of the Ministry of Finance of the Republic of Armenia and acts on behalf of it) for the following reasons:

- services were provided using the resources received from the Ministry of Finance of the Republic of Armenia, and the Fund has a liability to pay to the Ministry of Finance of the Republic of Armenia;
- the Fund bears a foreign currency risk related to this transaction, since the amounts received from the Ministry of Finance of the Republic of Armenia are generally denominated in US dollar, and the payments for the energy services provided by the Fund made done in the Armenian dram.

Borrowings received and provided

The Fund received borrowings for implementation of "Energy efficiency project" as presented in note 10 and provided borrowings to financial institutions as presented in note 6. Management believes that the carrying amounts of the borrowings received and provided approximate their fair values, so they are not discounted by market rates considering the absence of appropriate financial market in the Republic of Armenia for receiving and providing borrowings of such amounts and with such terms, as well as the fact that the Fund is a non-for-profit organization, and it does not pursue a purpose to gain profit. However, if management changes its estimations, the financial statements of the Fund may be changed significantly.

21 Financial instruments

21.1 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 and, financial liability are disclosed in note 3.6.

21.2 Categories of financial instruments

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

Financial assets

In thousand drams	As of 31 December 2017	As of 31 December 2016
Loans and receivables:		
Accounts receivable	3,712,525	3,813,040
Borrowings provided	38,130	548
Cash and bank balances	520,314	979,403
Held-to-maturity investments		
Term deposits	339,073	-
	4,610,042	4,792,991

Financial liabilities

In thousand drams	As of 31 December 2017	As of 31 December 2016
Financial liabilities measured at amortized cost:		
Borrowings received	3,899,720	3,955,103
Accounts payable	155,861	513,887
	4,055,581	4,468,990

22 Financial risk management

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

Financial risk factors

a) *Market risk*

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

Foreign currency risk

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

Exposures to currency exchange rates arise from the Fund's borrowings received, which are primarily denominated in US dollar.

Foreign currency denominated financial assets and liabilities which expose the Fund to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Item		
As of 31 December 2017	US dollar	Euro
Financial assets		
Accounts receivable	-	7,873
Cash and bank balances	468,784	2,436
Term deposits	339,073	-
	807,857	10,309
Financial liabilities		
Borrowings received	2,228,064	-
	2,228,064	-
Net position	(1,420,207)	10,309

Item		
As of 31 December 2016	US dollar	Euro
Financial assets		
Accounts receivable	-	4,003
Cash and bank balances	791,993	-
	791,993	4,003
Financial liabilities		
Borrowings received	2,248,715	-
	2,248,715	
Net position	(1,456,722)	4,003

The following table details the Fund's sensitivity to a 10% (2016: 10%) increase and decrease in dram against US dollar and Euro. 10% (2016: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2016: 10%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar and Euro by 10% (2016: 10%) then this would have had the following impact:

In thousand drams	US dollar impact		Euro impact	
	2017	2016	2017	2016
Result	(142,020)	(145,672)	1,030	400
	(142,020)	(145,672)	1,030	400

b) *Credit risk*

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

In thousand drams	As of 31 December 2017	As of 31 December 2016
Financial assets at carrying amounts		
Borrowings provided	38,130	548
Term deposits	339,073	-
Accounts receivable	3,712,525	3,813,040
Bank balances	520,314	979,403
	4,610,042	4,792,991

Management believes that there is no credit risk related to receivables since the Fund cooperates with the counterparties under the State control and are controlled by the Government.

The credit risk for bank balances, term deposits and provided borrowings is considered negligible, since the counterparties are reputable financial institutions.

At the reporting date there was no significant concentration of credit risk in respect of accounts receivables.

c) *Liquidity risk*

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

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

The following table details the Fund's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The table includes both interest and principal cash flows.

2017	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		0.75%	
Less than 6 months	-	45,019	45,019
6 months to 1 year	155,861	40,858	196,719
1-5 years	-	327,635	327,635
More than 5 years	-	3,486,208	3,486,208
	155,861	3,899,720	4,055,581

2016	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		0.75%	
Less than 6 months	-	32,838	32,838
6 months to 1 year	513,887	28,750	542,637
1-5 years	-	320,588	320,588
More than 5 years	-	3,572,927	3,572,927
	513,887	3,955,103	4,468,990

The Fund considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and accounts receivable.

d) Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

• Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

• Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

• Level 3: unobservable inputs for the asset or liability.

All financial assets and financial liabilities of the Fund are included in the Level 3 category.

23 Commitments

23.1 Operating lease commitments

The Fund as lessee

Non-cancelable operating lease commitments are disclosed below:

In thousand drams	As of 31 December 2017	As of 31 December 2016
Within one year	13,332	9,999
	13,332	9,999

24 Contingencies

24.1 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.

Deterioration of economic situation of countries collaborating with the Republic of Armenia led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Fund. 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.

Management of the Fund believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Fund.

24.2 Taxes

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

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

24.3 Environmental matters

Management is of the opinion that the Fund has met the Government's requirements concerning environmental matters and, therefore, believes that the Company does not have any current material environmental liabilities. However, environmental legislation in Armenia is in process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

25 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash in banks and short-term investments with a maturity period of less than 3 months. Cash and bank balances at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position, as follows:

In thousand drams	As of 31 December 2017	As of 31 December 2016
Bank balances	520,314	979,403
Short-term investments	242,050	-
	762,364	979,403

26 Reconciliation of liabilities arising from borrowings received

The changes in the Fund's liabilities arising from borrowings received can be classified as follows:

In thousand drams	Long-term borrowings
as of 1 January 2017	3,955,103
Cash flows	
Repayments (principal amount)	(57,615)
Repayments (interests)	(29,606)
Non-cash	
Interest accrual	29,678
Foreign exchange gain/loss	2,160
as of 31 December 2017	3,899,720

27 Related parties

27.1 Control relationships

The Fund's founder and the final controller is the Republic of Armenia.

27.2 Transactions with management

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

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and bonuses	12,562	13,705
	12,562	13,705

27.3 Transactions with the Ministry of Finance of RA

In thousand drams

Transactions	Year ended 31 December 2017	Year ended 31 December 2016
Repayment of borrowings	57,615	54,876
Interest expense	29,678	29,806
	87,293	84,682

In thousand drams

Outstanding balances	Year ended 31 December 2017	Year ended 31 December 2016
Borrowings received	3,899,720	3,955,103
	3,899,720	3,955,103

28 Subsequent events

There are no significant subsequent events.