

Financial Statements and Independent Auditor's Report

Armenia Renewable Resources and Energy Efficiency Fund

31 December 2018

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Independent auditor's report

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

Opinion

We have audited the financial statements of Armenia Renewable Resources and Energy Efficiency (the "Fund"), which comprise the statement of financial position as at 31 December 2018, 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 at 31 December 2018, 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.

Emphasis of a matter

We draw attention to note 29 to the financial statements, which describes the uncertainty related to the ability of the Fund to operate as a going concern as at 31 December 2018. Management believes that there are arrangements with the existing and potential donor organizations on further funding. Accordingly, the management estimates that in the nearest future the Fund will continue its normal operations. Our opinion is not qualified in respect of this matter.

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.

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.

Statement of profit or loss and other comprehensive income

In thousand drams		Year ended 31 December 2018	Year ended 31 December 2017
	Note		
Income from grants	13	278,188	625,220
Finance income	14	15,995	10,104
Income from services	15	102,981	88,825
Other income		15,377	27,328
Project expenses	16	(278,188)	(630,302)
Administrative expenses	17	(148,507)	(183,144)
Finance costs	10	(29,076)	(29,678)
Result from operating activities		<u>(43,230)</u>	<u>(91,647)</u>
Impairment losses on financial assets	5,6,7	(31,962)	(4,318)
Finance income (term deposits)		6,768	5,851
Other financial results	18	(600)	(3,186)
Result before taxes		<u>(69,024)</u>	<u>(93,300)</u>
Income tax expense	19	(8,651)	(10,181)
Result for the year		<u>(77,675)</u>	<u>(103,481)</u>
Other comprehensive result		-	-
Total comprehensive loss for the year		<u>(77,675)</u>	<u>(103,481)</u>

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 37.

Statement of changes in net assets

In thousand drams	Accumulated result	Total
As at 1 January 2017	267,148	267,148
Result for the year	(103,481)	(103,481)
Total comprehensive loss for the year	(103,481)	(103,481)
As at 31 December 2017	163,667	163,667
Result for the year	(77,675)	(77,675)
Total comprehensive loss for the year	(77,675)	(77,675)
As at 31 December 2018	85,992	85,992

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 37.

Statement of cash flows

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities		
Result for the year	(77,675)	(103,481)
<i>Adjustments for:</i>		
Depreciation and amortization	64,015	65,605
Income tax expense	8,651	10,181
Finance costs	29,076	29,678
Interest income from borrowings and bank balances	(15,995)	(10,104)
Interest income from term deposits	(6,768)	(5,851)
Income from grants	(278,188)	(625,220)
Movement of the expected credit losses	29,149	2,647
Foreign exchange rate losses	600	3,186
<i>Operating result before working capital changes</i>	<u>(247,135)</u>	<u>(633,359)</u>
Change in receivables	534,323	150,462
Change in inventories	112	(749)
Change in payables	(132,578)	(358,695)
<i>Cash generated from/(used in) operations</i>	<u>154,722</u>	<u>(842,341)</u>
Interest paid	(29,163)	(29,606)
Income tax paid	(5,603)	(14,098)
<i>Net cash from/(used in) operating activities</i>	<u>119,956</u>	<u>(886,045)</u>
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(349)	(5,443)
Repayments of term deposits/(term deposits invested), net	46,823	(95,128)
Grants received and return of grants, net	170,778	852,574
Interest income received	19,854	13,594
Repayments of borrowings/(borrowings provided), net	(564,953)	(38,001)
<i>Net cash from/(used in) investing activities</i>	<u>(327,847)</u>	<u>727,596</u>
Cash flows from financing activities		
Repayment of borrowings	(80,151)	(57,615)
<i>Net cash used in financing activities</i>	<u>(80,151)</u>	<u>(57,615)</u>
Net decrease in cash and bank balances	(288,042)	(216,064)
Foreign exchange effect on cash	190	(975)
Cash and bank balances at the beginning of the year	762,364	979,403
Cash and bank balances at the end of the year (refer to note 25)	<u>474,512</u>	<u>762,364</u>

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 37.

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 2017-2018 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 the 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 Adamyanyan street, Yerevan, Republic of Armenia.

The average number of employees of the Fund during 2018 was 21 (2017: 19).

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 Fund operates on a going concern basis.

Further, the Fund has adopted new guidance for accounting for financial instruments (refer to note 2.5). This guidance was applied using the transitional relief allowing the entity not to restate prior periods.

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 2018.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2018

IFRS 9 Financial Instruments

IFRS 9 replaces 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.

When adopting IFRS 9, the Fund has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognized in retained earnings.

The adoption of IFRS 9 has impacted the impairment of financial assets applying the expected credit loss model. This affects the Fund's accounts receivable and investments in debt-type assets measured at amortized cost. For accounts receivable, the Fund applies a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component (refer to note 22(b)).

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.

Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. The Fund's management have not yet assessed the impact of these amendments on these financial statements.

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. The Fund's management have not yet assessed the impact of IFRS 16 on these financial statements.

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.

Annual Improvements 2015-2017

The Annual Improvements 2015-2017 made several minor amendments to a number of IFRSs. The amendments relevant to the Fund are summarized below:

IAS 12 *Income Taxes: Income tax consequences of payments on instruments classified as equity*

The amendments to IAS 12 clarify that the income tax consequences of dividends are recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 12 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 483.75 drams for 1 US dollar and 553.65 drams for 1 euro as at 31 December 2018 (31 December 2017: 484.10 drams for 1 US dollar, 580.10 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 profit or loss for the period.

3.2 Property and equipment

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

In 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 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.

Classification and initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs.

Financial assets are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Fund does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the Fund's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of accounts receivable which is presented within "Impairment losses on financial assets". A summary of the Fund's financial assets by category is given in note 21.2.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Fund's cash and cash equivalents, accounts and most other receivable fall into this category of financial instruments as well as term deposits that were previously classified as held-to-maturity under IAS 39.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model". This replaces IAS 39's "incurred loss model". Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, accounts receivable, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Fund first identifying a credit loss event. Instead the Fund considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Previous financial asset impairment under IAS 39

In the prior year, the impairment of financial assets at amortized cost was based on the incurred loss model. Individually significant financial assets at amortized cost were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Financial assets at amortized cost that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

Financial assets at amortized cost

The Fund makes use of a simplified approach in accounting for financial assets at amortized cost (accounts receivable, provided borrowings and term deposits) and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Fund uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Fund assesses impairment of financial assets on a collective basis as they possess shared credit risk characteristics. Refer to note 22(b) for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Borrowings provided

The Fund creates an allowance for all portfolios, which are overdue by more than 90 days, because the historical experience shows that borrowings that are past due by more than 90 days are generally not recoverable. The borrowings that have objective evidence of impairment at the reporting date are included in "Stage 3". The principal amounts and interests of overdue borrowings up to 30 days are included in "Stage 1". "12-month expected credit losses" are recognized for the first category. The principal amounts and interests of overdue borrowings starting from 30 to 90 days are included in "Stage 2", and "lifetime expected credit losses" are recognized for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Fund's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Fund's financial liabilities include borrowings received and accounts payable. A summary of the Fund's financial liabilities by category is given in note 21.2.

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.

Accounts payable

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

3.7 Cash and cash equivalents

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.

For the purpose of the statement of cash flows, cash equivalents are on-demand deposits, together with other short-term, highly liquid investments that are readily convertible into 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.

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 receivable.
- (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

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

To determine whether to recognize revenue, the Fund follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Fund satisfies performance obligations by transferring the promised goods or services to its customers.

The Fund recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as advances from customers in the statement of financial position. Similarly, if the Fund satisfies a performance obligation before it receives the consideration, the Fund recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

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	Computers and equipment	Fixtures and fittings and other	Total
<i>Cost</i>					
As at 1 January 2017	279,040	29,470	47,578	16,254	372,342
Additions	-	-	300	851	1,151
Disposals	-	-	(6,554)	(2,441)	(8,995)
As at 31 December 2017	279,040	29,470	41,324	14,664	364,498
Additions	138	-	-	211	349
As at 31 December 2018	279,178	29,470	41,324	14,875	364,847
<i>Accumulated depreciation</i>					
As at 1 January 2017	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 at 31 December 2017	103,356	25,680	35,155	14,037	178,228
Charge for the year	55,649	2,934	2,235	385	61,203
As at 31 December 2018	159,005	28,614	37,390	14,422	239,431
<i>Carrying amount</i>					
As at 31 December 2017	175,684	3,790	6,169	627	186,270
As at 31 December 2018	120,173	856	3,934	453	125,416

Depreciation expense has been allocated as follows:

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Administrative expenses	3,314	3,665
Project expenses	57,889	58,999
	<u>61,203</u>	<u>62,664</u>

As at 31 December 2018 the cost of the property and equipment of the Fund with nil carrying amount is drams 79,340 thousand (as at 31 December 2017: drams 58,015 thousand).

According to the Government decree No. 173-A dated 15 February 2018, the Fund has received a community-owned land as a contribution of 97.3709 hectares with a cadastral cost of drams 140,170 thousand and then transferred it to the Organization established for the implementation of solar photovoltaic plant construction project. This transaction is not included in the additions and disposals of the property and equipment, since the Fund acted as an agent in the process of transferring the land to this Organization.

5 Accounts receivable

In thousand drams	As at 31 December 2018	As at 31 December 2017
<i>Current</i>		
Accounts receivable	596,808	592,092
Allowances for credit losses	(1,215)	-
Grants receivable	-	4,192
Advances and prepayments	1,298	16,562
Receivables from the State budget	-	875
Other	195	-
	<u>597,086</u>	<u>613,721</u>
<i>Non-current</i>		
Accounts receivable from energy efficiency investments	2,596,957	3,116,241
Allowances for credit losses	(5,276)	-
	<u>2,591,681</u>	<u>3,116,241</u>
Accounts receivable	<u>3,188,767</u>	<u>3,729,962</u>

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

In thousand drams	As at 31 December 2018	As at 31 December 2017
"Z Profile" LLC and "Araratshin" LLC consortium	-	15,504
Other	1,298	1,058
	<u>1,298</u>	<u>16,562</u>

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

In thousand drams	As at 31 December 2018	As of 31 December 2017
Receivables from rendering of consulting services	-	12,605
Receivables from rendering of energy efficiency services	596,808	579,487
	<u>596,808</u>	<u>592,092</u>

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

In thousand drams	As at 31 December 2018		As of 31 December 2017	
	Current	Non-current	Current	Non-current
Energy efficiency investments	593,815	2,596,957	577,271	3,116,241
Energy service	2,993	-	2,216	-
	<u>596,808</u>	<u>2,596,957</u>	<u>579,487</u>	<u>3,116,241</u>

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, signs contract with the contractor for construction works, and at the same time concludes energy efficiency services provision contract with the beneficiary (public facilities). 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).

The net carrying value of accounts receivable is considered a reasonable approximation of fair value.

All of the Fund's accounts receivable have been reviewed for indicators of impairment. The accounts receivable are mostly from public facilities (government entities).

Note 22(b) includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The IAS 39 measurement basis has applied an incurred loss model, whereas the current year applies IFRS 9, which requires the use of expected loss model.

Refer to note 22 (a) for the currencies in which the accounts receivable are denominated.

6 Borrowings provided

Name	Principal amount in original currency	Original currency	Main contract commencement date	Main contract maturity date	Interest rate (%)	Balance as at 31 December (in thousand drams)		Interest income (in thousand drams)			
						2018		2017		2018	2017
						Principal	Accrued interest	Principal	Accrued interest		
ACBA Credit Agricole Bank C/JSC	108,257,420	AMD	01.04.2017	up to 96 months	5%	108,257	395	-	3,882	-	
ACBA Leasing CO C/JSC	217,589,850	AMD	31.08.2017	up to 96 months	from 3% to 4%	176,532	515	3,404	2,773	2	
Global Credit UCO C/JSC	346,915,000	AMD	31.08.2017	up to 96 months	from 3% to 4%	318,227	823	34,660	5,053	100	
						603,016	1,733	38,064	11,708	102	
Expected credit losses						(20,065)	-	-	-	-	
						582,951	1,733	38,064	66	66	
Non-financial institution intermediaries	45,681	US dollar	01.04.2004	01.04.2014	5%	16,557	-	16,569	-	-	
Non-financial institution intermediaries	185,535	US dollar	01.06.2010	01.06.2020	5%	86,013	23,882	86,075	19,595	4,282	
Non-financial institution intermediaries	22,148	US dollar	01.06.2005	01.06.2015	5%	4,645	-	7,473	-	-	
						107,215	23,882	110,117	19,595	4,282	
Credit losses						(16,557)	-	(16,569)	-	-	
Non-financial institution intermediaries						(86,013)	(23,882)	(86,075)	(19,595)		
Non-financial institution intermediaries						(4,645)	-	(7,473)	-		
Non-financial institution intermediaries						(107,215)	(23,882)	(110,117)	(19,595)		
						582,951	1,733	38,064	66	66	
									15,995	4,384	

Movement of the allowance for expected credit losses for borrowings is presented below:

In thousand drams	2018	2017
Balance at the beginning of the year	129,712	127,065
Increase in the allowance during the year	24,263	4,318
Derecognition of allowance (included in other income)	(2,813)	(1,671)
Balance at the end of the year	151,162	129,712

7 Term deposits

Name	Principal amount	Currency	Commence- ment date	Maturity date	Interest rate (%)	Balance as at 31 December (in thousand drams)			
						2018		2017	
						Principal	Accrued interest	Principal	Accrued interest
"Araratbank" OJSC	99,940	US dollar	06.09.2018	09.09.2019	4.3%	48,346	-	-	-
"Araratbank" OJSC	99,940	US dollar	04.09.2017	05.09.2018	4.5%	-	-	48,381	170
"Araratbank" OJSC	100,000	US dollar	23.11.2017	26.11.2018	4.75%	-	-	48,410	38
"HSBC Bank Armenia" CJSC	500,000	US dollar	31.05.2017	28.02.2018	3.5%	-	-	242,050	24
						48,346	-	338,841	232
						(1,208)	-	-	-
						47,138	-	338,841	232

Expected credit losses

8 Cash and bank balances

In thousand drams	As at 31 December 2018	As at 31 December 2017
Current bank accounts	128,970	105,417
Designated accounts in the Central Treasury-agency contracts	25,481	46,420
Designated accounts in the Central Treasury-grant contracts	320,061	368,477
	<u>474,512</u>	<u>520,314</u>

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	2018	2017
Balance at the beginning of the year	187,207	247,052
Additions (property and equipment and intangible assets)	-	490
Realized to income (refer to note 13)	(59,103)	(60,335)
Balance at the end of the year	<u>128,104</u>	<u>187,207</u>

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	Commence- ment date	Maturity date	Interest rate (%)	Balance as of December 31 (in thousand drams)				Interest expense (in thousand drams) 2017	Interest expense (in thousand drams) 2018
						2018		2017			
						Principal	Accrued interest	Principal	Accrued interest		
Ministry of Finance of the Republic of Armenia	1,740,568	Armenian dram	10.11.2015	10.11.2045	0.75%	1,632,688	1,744	1,667,495	1,781	12,402	12,752
Ministry of Finance of the Republic of Armenia	4,738	USD	10.11.2015	10.11.2045	0.75%	2,181,407	2,330	2,228,064	2,380	16,674	16,926
Total						<u>3,814,095</u>	<u>4,074</u>	<u>3,895,559</u>	<u>4,161</u>	<u>29,076</u>	<u>29,678</u>

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	2018	2017
Balance at the beginning of the year	381,028	138,643
Additions	170,778	821,914
Return of grants	-	(14,154)
Transferred to grant related to assets	-	(490)
Income recognition (refer to note 13)	(219,085)	(564,885)
Balance at the end of the year	<u>332,721</u>	<u>381,028</u>

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

In thousand drams	As at 31 December 2018		As at 31 December 2017	
	International Development Association	RA Government	International Development Association	RA Government
"Solar power project preparation"	45,284	2,547	89,155	2,512
"Geothermal exploratory drilling project"	281,588	1,538	286,048	1,549
"Energy efficiency project"	1,764	-	1,764	-
	<u>328,636</u>	<u>4,085</u>	<u>376,967</u>	<u>4,061</u>

12 Accounts payable

In thousand drams	As at 31 December 2018	As at 31 December 2017
Payables on works and services	9,517	148,106
Advances from customers	50,452	42,021
Taxes and duties payable	5,121	8,824
Employee benefits	8,932	7,605
Other	116	150
	<u>74,138</u>	<u>206,706</u>

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

In thousand drams	As at 31 December 2018	As at 31 December 2017
Value Added Tax	779	4,913
Taxes on employees' benefits	4,211	3,837
Other	131	74
	<u>5,121</u>	<u>8,824</u>

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 2018	Year ended 31 December 2017
Income from grants related to assets (refer to note 9)	59,103	60,335
Income from deferred income (refer to note 11)	219,085	564,885
	<u>278,188</u>	<u>625,220</u>

14 Finance income

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Interest income from borrowings provided (refer to note 6)	15,995	4,384
Interest income on bank account balances	-	5,720
	<u>15,995</u>	<u>10,104</u>

15 Income from services

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Consulting services	19,684	22,496
Energy services	49,964	62,559
Other	33,333	3,770
	<u>102,981</u>	<u>88,825</u>

16 Project expenses

In thousand drams	Year ended 31 December 2018			Year ended 31 December 2017		
	Grants allocation	Fund allocation	Total	Grants allocation	Fund allocation	Total
"Geothermal exploratory drilling project"	19,511	-	19,511	120,331	-	120,331
"Solar power project preparation"	199,574	-	199,574	443,966	-	443,966
"Energy efficiency project"	-	-	-	588	5,082	5,670
	<u>219,085</u>	<u>-</u>	<u>219,085</u>	<u>564,885</u>	<u>5,082</u>	<u>569,967</u>
Depreciation and amortization of the property and equipment	59,103	-	59,103	60,335	-	60,335
	<u>278,188</u>	<u>-</u>	<u>278,188</u>	<u>625,220</u>	<u>5,082</u>	<u>630,302</u>

17 Administrative expenses

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Employee benefits	102,329	83,914
Services received	13,424	22,073
Post and communication expenses	598	2,924
Trip and representation expenses	2,370	22,635
Office and utility expenses	858	2,618
Depreciation and amortization	4,912	4,616
Audit and consulting services	3,286	7,874
Bank and insurance charges	2,130	120
Lease expenses	13,332	14,692
Other	5,268	21,678
	<u>148,507</u>	<u>183,144</u>

18 Other financial items

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Loss from exchange differences on:		
Financial assets measured at amortized cost	(1,885)	622
Financial liabilities measured at amortized cost	1,285	(3,808)
	<u>(600)</u>	<u>(3,186)</u>

19 Income tax expense

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Current tax	8,651	10,181
	<u>8,651</u>	<u>10,181</u>

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2018	Effective tax rate (%)	Year ended 31 December 2017	Effective tax rate (%)
Result before taxation (under IFRSs)	<u>(69,024)</u>		<u>(93,300)</u>	
Tax calculated at a tax rate of 20% (2017: 20%)	(13,805)	20%	(18,660)	20%
(Non-taxable)/non- deductible items, net	<u>22,456</u>	(33%)	<u>28,841</u>	(31%)
Income tax expense	<u>8,651</u>	(13%)	<u>10,181</u>	(11%)

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.

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.

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 recoverable, taking into account the past experience and the fact, that the counterparties are under the State control. Therefore, the management has calculated expected loss for these receivables based on the default probability for sovereign rating provided to the Republic of Armenia by international rating agencies (S7P, Fitch or Moody's) (see note 22(b)).
- 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.

The following are the judgements made by management in applying the accounting policies of the Fund that have significant effect on the financial statements.

Revenue from rendered services and applicable taxes

Armenia Renewable Resources and Energy Efficiency Fund (the Authority) by request of the Ministry of Energy Infrastructures and Natural Resources of RA is managing the process for selection of private developer or consortia for design, finance, build, own and operate the proposed grid-connected Masrik-1 Solar Photovoltaic (PV) Power Plant. In accordance with point 5.6 of the invitation to participate in procurement procedures approved by this decision, the winning company has to pay drams 40,000 thousand to the Fund as a preparatory fee in immediately available funds, without any deductions whatsoever for taxes, duties, charges or other withholdings. The invitation for the submission of applications does not clearly state that the Fund's prepayment fee is free of charge or is granted as a compensation for the expenses and works done. Funds received by the Fund in the result of the competition were considered as income from rendering of services, and an invoice was issued. The amount of drams 6,667 thousand of VAT allocated to the tax account was paid to the State budget as a VAT liability.

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 of financial assets and financial liabilities in each category are as follows:

Financial assets

In thousand drams	As at 31 December 2018	As at 31 December 2017
<i>Amortized cost</i>		
Accounts receivable	3,187,273	3,712,525
Borrowings provided	584,684	38,130
Cash and bank balances	474,512	520,314
Term deposits	47,138	339,073
	<u>4,293,607</u>	<u>4,610,042</u>

Financial liabilities

In thousand drams	As at 31 December 2018	As at 31 December 2017
<i>Amortized cost</i>		
Borrowings received	3,818,169	3,899,720
Accounts payable	18,565	155,861
	<u>3,836,734</u>	<u>4,055,581</u>

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 financial 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	US dollar	Euro
As at 31 December 2018		
<i>Financial assets</i>		
Cash and bank balances	439,132	8,032
Term deposits	49,911	-
	<u>489,043</u>	<u>8,032</u>
<i>Financial liabilities</i>		
Borrowings received	2,181,407	-
	<u>2,181,407</u>	<u>-</u>
Net position	<u>(1,692,364)</u>	<u>8,032</u>

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

The following table details the Fund's sensitivity to a 10% (2017: 10%) increase and decrease in dram against US dollar and Euro. 10% (2017: 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% (2017: 10%) change in foreign currency rates.

If Armenian dram had strengthened/(weakened) against US dollar and Euro by 10% (2017: 10%) then this would have had the following impact:

In thousand drams	US dollar impact		Euro impact	
	2018	2017	2018	2017
Result	(169,236)	(142,020)	803	1,030
	<u>(169,236)</u>	<u>(142,020)</u>	<u>803</u>	<u>1,030</u>

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

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund is exposed to credit risk from financial assets, including cash and cash equivalents held at banks, accounts receivable, borrowings provided and term deposits.

The credit risk is managed on a group basis based on the Fund's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks and deposits with banks are managed via diversification of bank deposits, and are only with major reputable financial institutions.

The Fund continuously monitors the credit quality of customers. Where available, external credit ratings and/or reports on customers are obtained and used. The Fund's policy is to deal only with credit worthy counterparties. The credit terms for customers as negotiated with customers are subject to an internal approval process which considers the credit rating scorecard. The ongoing credit risk is managed through regular review of ageing analysis, together with credit limits per customer.

Accounts receivable consist of a large number of customers. The Fund does not hold any security on the accounts receivable balance. In addition, the Fund does not hold collateral relating to other financial assets.

Accounts receivable

The Fund applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all accounts receivable as these items do not have a significant financing component and from public facilities (government entities).

In measuring the expected credit losses, the accounts receivable have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Accounts receivable are due from the Government agencies, and the expected loss rates are based on the default probability for sovereign rating provided to the Republic of Armenia by international rating agencies. The sovereign rating of the Republic of Armenia granted by S&P in 2017 and 2018 is B+. The one-year default probability for this rating is 0.2%. The probability of default is adjusted to reflect current and forwarding looking macro-economic factors affecting the customer's ability to settle the amount outstanding. The Fund has identified the gross domestic product (GDP), external government debt and the indicator of economic activity to be the most relevant factors and according adjusts the historical loss rates for expected changes in these factors. The loss given default (LGD) has been taken as 100%, since the balances are not collateralized. The exposure at default (EAD) is the maximum exposure at default at the reporting date. $ECL=PD*LGD*EAD$.

As at 31 December 2018	Expected credit loss	Gross carrying amount	Lifetime expected credit loss
<i>Current</i>			
Energy efficiency investments		593,815	
Energy services		2,993	
	0.20%	596,808	1,215
<i>Non-current</i>			
Energy efficiency investments		2,596,957	
	0.20%	2,596,957	5,276
Total		3,193,765	6,491

Borrowings provided

Targeted borrowings are provided to financial and non-financial institution intermediaries and commercial banks for implementation of "Community Based Energy Efficiency Improvement Project for Legal and Physical Entities in Non-gasificated Communities in Armenia" Project (see note 1). Financial institutions (credit organizations and commercial banks) bears the collectability risk of the borrowings provided. The collectability of borrowings provided through non-financial institution intermediaries is secured by the repayments of the final borrower. These borrowings are fully provided for.

Provided borrowings are not secured.

The Fund creates an allowance for all portfolios, which are secured by the payments made by the final borrower, and are overdue by more than 90 days, because the historical experience shows that borrowings that are past due by more than 90 days are generally not recoverable. The borrowings that have objective evidence of impairment at the reporting date are included in "Stage 3". The principal amounts and interests of overdue borrowings up to 30 days are included in "Stage 1". "12-month expected credit losses" are recognized for the first category. The principal amounts and interests of overdue borrowings starting from 30 to 90 days are included in "Stage 2", and "lifetime expected credit losses" are recognized for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The expected loss rates for borrowings provided are based on the default probability for sovereign rating provided to the commercial banks by international rating agencies. The sovereign rating of the commercial banks granted by international rating agencies in 2017 and 2018 is B+. The one-year default probability for this rating is 2.08%. No probability rating issued for credit organization; accordingly, the Fund has used the average data for commercial banks, which is B. The one-year default probability for this rating is 3.6%. The LGD has been taken as 100%, since the balances are not collateralized. EAD is the maximum exposure at default at the reporting date. $ECL = PD * LGD * EAD$.

Term deposits

The expected credit loss rates are based on the change notches external credit rating. For this criterion, the corporate rating will be taken into the account. A significant change notches in the credit score assigned by the Big Three credit rating agencies (Standard & Poor's, Moody's, and Fitch) is indicative of a significant increase in credit risk.

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.

2018	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		0.75%	
Less than 6 months	-	44,922	44,922
6 months to 1 year	18,565	40,848	59,413
1-5 years	-	327,562	327,562
More than 5 years	-	3,404,837	3,404,837
	<u>18,565</u>	<u>3,818,169</u>	<u>3,836,734</u>
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
	<u>155,861</u>	<u>3,899,720</u>	<u>4,055,581</u>

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

23 Commitments

23.1 Operating lease commitments

Non-cancelable operating lease commitments are disclosed below:

In thousand drams	As at 31 December 2018	As at 31 December 2017
Within one year	13,320	13,332
1 to 5 years	52,170	-
	<u>65,490</u>	<u>13,332</u>

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 dependent. 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 Fund 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 at 31 December 2018	As at 31 December 2017
Bank balances	474,512	520,314
Short-term investments	-	242,050
	<u>474,512</u>	<u>762,364</u>

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 2018	3,899,720
Cash flows	
Repayments (principal amount)	(80,151)
Repayments (interests)	(29,163)
Non-cash	
Interest accrual	29,076
Foreign exchange gain	(1,313)
As at 31 December 2018	<u>3,818,169</u>

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 loss	2,160
As at 31 December 2017	<u>3,899,720</u>

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 2018	Year ended 31 December 2017
Salaries and bonuses	15,677	12,562
	<u>15,677</u>	<u>12,562</u>

27.1 Transactions with the Ministry of Finance of the Republic of Armenia

In thousand drams

Transactions	Year ended 31 December 2018	Year ended 31 December 2017
Repayment of borrowings	80,151	57,615
Interest expense	29,076	29,678
	<u>109,227</u>	<u>87,293</u>

28 Subsequent events

There are no significant subsequent events.

29 Going concern

The financial statements of the Fund have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During 2018 the Fund incurred a loss of drams 77,675 thousand (2017: drams 103,481 thousand). Additionally, in 2018 the result from operating activities is a negative figure (drams 43,230 thousand). However, the management is confident that the financial losses the Fund suffered will not affect the ability of the Fund to realize its assets and discharge its liabilities in the normal course of the business.

Management believes that the Fund will record positive results in the nearest future, since it has agreements with donor organizations to implement a number of projects. The main reasons for the delay in approving the existing projects and the funding of the approved projects are:

- Change of the Fund Director: over the past two years three directors have been changed;
- Political changes in the Republic of Armenia and, consequently, changes in the structure of the Government,
- The Fund's liquidation possibility in the framework of the Government optimization;
- Changes in the composition of the governing body of the Fund.