"HIGH VOLTAGE ELECTRICAL NETWORKS"

CLOSED JOINT STOCK COMPANY

FINANCIAL STATEMENTS AND

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2015

YEREVAN
May 2016

TABLE OF CONTENTS

	page
BOARD	3
INDEPENDENT AUDITOR'S REPORT	4
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	6
STATEMENT OF FINANCIAL POSITION	7
STATEMENT OF CASH FLOWS	8
STATEMENT OF CHANGES IN EQUITY	10
NOTES TO THE FINANCIAL STATEMENTS	11

The Board

Levon Shahverdyan	*Chairman of the Board of Directors, Deputy Minister of RA Ministry of Energy and Natural Resources*
Artak Albertyan	*Head of Division of Financial Planning of Current Budget Expenditures on Fuel-energy Complex and Economic Productivity in other spheres of the department of Financial Planning of Budget Expenditures of RA Ministry of Finance*
Rubik Davtyan	*Head of Department of Financial Programming of Current Budget Expenditures in the sphere of Economic Productivity of staff of RA Ministry of Finance*
Armen Meliq-Israelyan	*Head of department of supervision of state shares of governance of state property under the Government of RA*
Aram Ananyan	*General Director of "High Voltage Electrical Networks" CJSC*

Company's management staff

Aram Ananyan	General Director of "High Voltage Electrical Networks" CJSC
Artur Mkrtchyan	Deputy General Director on Finance and Economy
Artavazd Ghazaryan	Deputy General Director, Chief Accountant

INDEPENDENT AUDITOR'S REPORT

On the financial statements of
"High Voltage Electrical Networks" CJSC
for the year ended 31 December 2015

To the Management of "High Voltage Electrical Networks" CJSC

We have audited the accompanying financial statements of the "High Voltage Electrical Networks" Closed Joint Stock Company (the Company) which comprise the statement of financial position as at 31 December 2015, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Քրոու Հորվաթ Բիզնես Ալյանսի Ասոցիացված Անդամ
ՀՀ; ք. Երևան 0037, Ա.Տիգրանյան 38/55; Հեռ.՝ (+37410) 20 11 51; Ֆաքս՝ (+37410) 20 11 50; www.sosaudit.am; Էլ-փոստ՝ info@sosaudit.am
An Associate of the Crowe Horwath Business Alliance
38/55 A.Tigranyan, 0037 Yerevan, RA; Tel.: (+37410) 20 11 51; Fax: (+37410) 20 11 50; www.sosaudit.am; E-mail: info@sosaudit.am

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of “High Voltage Electrical Networks” CJSC as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

2 May 2016
“SOS–Audit” LLC

«ՍՕՍ-ԱՈՒԴԻՏ»
«СОС-АУДИТ»
«SOS-AUDIT»
00051316

Manvel Ghazaryan
Director

Gnel Khachatryan, FCCA
Auditor

Քրոու Հորվաթ Բիզնես Ալյանսի Ասոցիացված Անդամ
ՀՀ; ք. Երևան 0037, Ա.Տիգրանյան 38/55; Հեռ.՝ (+37410) 20 11 51; Ֆաքս՝ (+37410) 20 11 50; www.sosaudit.am; Էլ-փոստ՝ info@sosaudit.am
An Associate of the Crowe Horwath Business Alliance
38/55 A.Tigranyan, 0037 Yerevan, RA; Tel.: (+37410) 20 11 51; Fax: (+37410) 20 11 50; www.sosaudit.am; E-mail: info@sosaudit.am

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

"High Voltage Electrical Networks" CJSC
For the year ended 31 December 2015

	Note	2015 AMD'000	2014* AMD'000
Revenue	4	7,796,696	8,478,613
Cost of sales	5	(3,601,029)	(3,576,998)
Gross profit		4,195,667	4,901,615
Administrative expenses	6	(1,187,566)	(1,020,726)
Other income	7	621,155	946,264
Other expenses	8	(1,105,994)	(780,480)
Finance costs	9	(476,993)	(592,314)
Finance income	10	72,989	133,485
Other gain/(loss)	11	(172,827)	(2,880,987)
Gain before tax		1,946,431	706,857
Income tax expense	12	(386,526)	(717,194)
Net profit/(loss) for the year		1,559,905	(10,337)
Other comprehensive income		-	-
Total comprehensive result for the year		1,559,905	(10,337)

(*) The comparative amounts are restated (note 3.21).

The financial statements were approved by the Management of the "High Voltage Electrical Networks" CJSC on 2 May 2016. The accompanying notes form an integral part of these financial statements.

Aram Ananyan
General Director

Artavazd Ghazaryan
Chief Accountant

STATEMENT OF FINANCIAL POSITION

"High Voltage Electrical Networks" CJSC
As at 31 December 2015

	Note	31.12.2015	31.12.2014*	01.01.2014*
		AMD'000	AMD'000	AMD'000
Non-current assets				
Property and equipment	13	51,914,322	49,269,491	46,890,658
Intangible assets	14	41,640	21,791	20,333
Deferred tax assets	12	1,195,524	1,387,667	2,073,265
Other non-current assets	15	676,022	1,312,707	2,172,713
		53,827,508	51,991,656	51,156,969
Current Assets				
Inventory	16	2,078,732	2,085,292	2,017,967
Trade and other receivables	17	8,194,969	4,350,416	2,662,217
Prepayment on income tax	12	171,756	365,787	397,383
Financial assets	18	141,020	4,688	216,856
Cash and cash equivalents	19	705,153	1,889,498	215,045
Non-current assets held for sale		-	-	239,390
		11,291,630	8,695,681	5,748,858
Total assets		65,119,138	60,687,337	56,905,827
EQUITY AND LIABILITIES				
Equity				
Share capital	24	8,755,027	7,217,996	7,126,346
Paid-in-capital		(8,725)	3,799	(119,687)
Capital reserve		162,744	162,744	162,744
Retained earnings		11,348,242	9,821,615	9,831,952
		20,257,288	17,206,154	17,001,355
Non-current liabilities				
Loans and borrowings	20	22,112,186	20,573,124	18,281,374
Grants related to assets	21	9,765,710	7,961,716	4,757,537
		31,877,896	28,534,840	23,038,911
Current liabilities				
Loans and borrowings	20	1,563,063	3,149,753	5,093,374
Grants related to income	22	-	308,396	-
Trade and other payables	23	11,420,891	11,488,194	11,772,187
		12,983,954	14,946,343	16,865,561
Total equity and liabilities		65,119,138	60,687,337	56,905,827

(*) The comparative amounts are restated (note 3.21).

STATEMENT OF CASH FLOWS

"High Voltage Electrical Networks" CJSC
For the year ended 31 December 2015

	2015 AMD'000	2014* AMD'000
OPERATING ACTIVITIES		
Net gain/(loss)	1,559,905	(10,337)
Adjustments for:		
Depreciation of property and equipment	2,819,421	2,731,014
Loss from PPE impairment	840,230	-
Gain on disposal of PPE	(12,307)	(15,332)
Loss on liquidation of PPE	12,982	10,629
Loss on liquidation of non-current assets held for sale	-	239,390
Amortization of intangible assets	5,375	3,332
Loss from disposal of intangible assets	7,776	-
Income tax expense	386,526	717,194
Fines and penalties on income tax	97	-
Finance costs	476,993	592,314
Other (gain)/loss on loans	-	(137,025)
Finance income on lending	(66,829)	(128,070)
Income from grants related to assets	(4,439)	(4,371)
Income from grants related to income	(158,142)	(8,989)
Write-off of receivables	189,522	1,560
Exchange (gain)/loss	(743,335)	2,640,321
Operating cash flows before changes in working capital	5,313,775	6,631,630
(Increase)/decrease in trade and other receivables	(4,977,250)	(1,689,759)
(Increase)/decrease in inventories	(15,226)	(254,640)
Increase/(decrease) in trade and other payables	(36,078)	(1,180,853)
Changes in grants related to income	(159,431)	273,372
Cash flows from operating activities before income taxes	125,790	3,779,750
Income tax paid	(449)	-
Net cash flows from operating activities	125,341	3,779,750

	2015 AMD'000	2014* AMD'000
INVESTING ACTIVITIES		
Payment for acquisition of PPE	(4,209,457)	(3,713,900)
Inflows from disposal of PPE	16,493	15,337
Payment for acquisition of intangible assets	(33,000)	(4,790)
Lending	(1,700,000)	(600,043)
Redemption of lending	1,630,652	940,281
Cash flows from investing activities	(4,295,312)	(3,363,115)
FINANCING ACTIVITIES		
Share capital replenishment	-	413,129
Dividends paid	(33,278)	-
Loans received	7,811,536	5,402,933
Loans repaid	(4,017,042)	(4,111,286)
Loan interest paid	(621,415)	(592,314)
Cash flows from financing activities	3,139,801	1,112,462
Net increase/(decrease) in cash and cash equivalents	(1,030,170)	1,529,097
Exchange (loss)/gain on cash and cash equivalents	(154,175)	145,356
Cash and cash equivalents at the beginning of the year	1,889,498	215,045
Cash and cash equivalents at the end of the year	705,153	1,889,498

Significant non-cash transaction during the reporting year is follows:

a) Settlement of the loan received through increase in share capital in the amount of 1,546,293 thousand drams (Note 24.1).

STATEMENT OF CHANGES IN EQUITY

"High Voltage Electrical Networks" CJSC
For the year ended 31 December 2015

	Note	Share Capital	Additional paid-in-capital	Capital Reserve	Retained Earnings	Total
		AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Balance as at 31 December 2013		7,126,346	(119,687)	162,744	13,852,021	21,021,424
Adjustments impact (Note 3.21)		-	-	-	217,637	217,637
Adjusted balance as at 1 January 2014		7,126,346	(119,687)	162,744	14,069,658	21,239,061
Increase in share capital		175,998	237,131	-	-	413,129
Capital repurchase		(84,348)	(113,645)	-	-	(197,993)
Profit/(loss) for the year		-	-	-	(10,337)	(10,337)
Balance as at 31 December 2014		7,217,996	3,799	162,744	9,821,615	17,206,154
Increase in share capital	24.1	1,546,293	-	-		1,546,293
Capital repurchase	24.2	(9,262)	(12,524)	-		(21,786)
Profit/(loss) for the year		-	-	-	1,559,905	1,559,905
Dividends		-	-		(33,278)	(33,278)
Balance as at 31 December 2015		8,755,027	(8,725)	162,744	11,348,242	20,257,288

(*) The comparative amounts are restated (note 3.21).

NOTES TO THE FINANCIAL STATEMENTS

"High Voltage Electrical Networks" CJSC
For the year ended 31 December 2015

1. Background

1.1 Company and operations

"High Voltage Electrical Networks" closed joint stock company (hereinafter – the Company) has been established through reorganization of "High Voltage Electrical Networks" subsidiary of "ArmEnergo" SCJSC in accordance with the Republic of Armenia Government Decree #450, dated 27 July 1998 and is a legal successor of it. The Company was reorganized as a closed joint stock company on 21 August 1998. The Company's Charter is approved by the RA Ministry of Energy Decree #254-GM, dated 14 August 1998. "High Voltage Electrical Networks" state closed joint stock company reregistered as a closed joint stock company in State registry of Organizations at 10 February 2000.

The sole stock owner of the Company is the Republic of Armenia. The management authority of the Company's shares is reserved to the Minister of Energy of the Republic of Armenia in accordance with the RA Government Decree #1694-N dated 6 November 2003.

The Company has 9 branches:

- Eastern Branch
- Western Branch
- Goris Branch
- Project Branch
- Administration of Construction of Energy Facilities Branch
- Zangezur Branch
- Northern Branch
- Southern Branch

The Company's principal activities are:

- Electricity transmission
- Electricity production
- Construction, reconstruction, modernization, collecting, renovation of energy facilities
- Construction of high voltage grids
- Research and development works of energy facilities

Legal address of the Company is: 1 Zoravar Andranik, Yerevan, Republic of Armenia. The tax code is 01522459.

1.2 Armenian business environment

Armenia has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Armenia involve risks that typically do not exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2. New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not effective. The Company has not yet determined the potential effect of the new and revised standard on its financial position and performance.

- IFRS 9, *Financial Instruments,* (as revised on July 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. IFRS 9 will supersede IAS 39, *Financial Instruments: Recognition and Measurement.*

  IFRS 9 introduces new a) classification and measurement requirements for financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. Specifically, for financial assets:

  - ✓ A debt investments that (i) is held within a business model whose objective is to collect the contractual cash flows, and (ii) has contractual cash flows that are solely payments of principal and interest on the principal outstanding, must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit and loss (FVTPL) under the fair value option.
  - ✓ A debt investments that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and (ii) has contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, must be measured at fair value through other comprehensive income (FVTOCI), unless the asset is designated FVTPL under the fair value option.
  - ✓ All other debt investments must be measured at FVTPL.
  - ✓ All equity investments are measured at FVTPL, except that if an equity investment is not held for trading, and irrevocable election can be made at initial recognition to measure the investment at FVTOCI (however, dividend income is recognized in profit and loss).

  IFRS 9 contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless such presentation would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

  The impairment model under IFRS 9 reflects <u>expected</u> credits losses, as opposed to <u>incurred</u> credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, and entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

  The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

- IFRS 15, *Revenue from contracts with customers*, (issued on May 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can choose to apply the Standard retrospectively or to use a modified transition approach, which is to apply the Standard retrospectively only to contracts that are not completed contract at the date of initial application. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersede the following Standards and Interpretations upon its effective date:
  - ✓ IAS 18, *Revenue*,
  - ✓ IAS 11, *Construction Contracts*,
  - ✓ IFRIC 13, *Customer Loyalty Programmes*,
  - ✓ IFRIC 15, *Agreement for the Construction of Real Estate*,
  - ✓ IFRIC 18, *Transfers of Assets from Customers*,
  - ✓ SIC 31, *Revenue-Barter Transactions Involving Advertising Services*.

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange of consideration. Unlike IAS 18, the recognition and measurement of interest income and dividend income from debt and equity instruments are no longer within the scope of IFRS 15.

IFRS 15 has a single model to deal with revenue from contracts with customers. Its core principal is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 introduces a 5-step approach to revenue recognition and measurement:

Step 1. Identify the contract with a customer;

Step 2. Identify the performance obligations in the contract;

Step 3. Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract;

Step 5: Recognize revenue when (or as) the entity satisfies the performance obligation.

- IFRS 16, *Leases*, (issued on January 2016) is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, if IFRS 15 has also been applied. IFRS 16 will supersede IAS 17, *Leases*.

Under IFRS 16 a lessee recognizes a right-of-use assets and a lease liability. The right-of-use assets is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the discounted lease payments payable over the lease term.

Lessee can account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis, if:

- A lease term of 12 months or less – this election is made by class of underlying assets;
- The underlying asset has a low value when new (such as personal computers or small items of office furniture) – this election can be made on a lease-by-lease basis.

- Amendments to IAS 1, *Presentation of Financial Statements*, - *Disclosure Initiative* (issued on Dec 2014), is effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. Key highlights in the amendment are:
  - An entity should not reduce understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
  - An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.
  - In other comprehensive income section of a statement of profit or loss and other comprehensive income, separate disclosure is required for the following items:
    - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and
    - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

- Amendments to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*, *-Clarification of Acceptable Methods of Depreciation and Amortization* (issued on May 2014) is effective for annual periods beginning on or after 1 January 2016 and apply prospectively with earlier application permitted. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable perception that revenue is not an appropriate basis for amortization of an intangible asset (which can be rebutted in two limited circumstances).

- Amendments to IAS 16, *Property, Plant and Equipment*, and IAS 41, *Agriculture*, *-Bearer Plants* (issued on June 2014) is effective for annual periods beginning on or after 1 January 2016 and apply retrospectively with earlier application permitted. The amendments define a bearer plant (mature bearer biological assets, which no longer undergo significant biological transformation and are used solely to grow produce) and require biological assets that meet its definition to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16. The producing growing on bearer plants continues to be accounted for in accordance with IAS 41.

- Amendments to IAS 27, *Separate Financial Statements*, *-Equity method in separate financial statements* (issued on Aug 2014), is effective for annual periods beginning on or after 1 January 2016 and apply retrospectively with earlier application permitted. The amendments focus on separate financial statements and allow the use of equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

  -At cost;

  -In accordance with IFRS 9 (or IAS 39 for the entities that have not yet adopted IFRS 9); or

  -Using the equity method as described in IAS 28, *Investments in Associates and Joint Ventures*.

  The same accounting must be applied to each category of investments.

  The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.

- Amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, *-Sale or contribution of assets between an investor and its associate or joint venture* (issued on Sept 2014). The effective date is not determined, yet. It applies prospectively with earlier application permitted.

  IAS 28 has been amended to reflect the following:

  - Gains and losses resulting from transactions involving assets that do not constitute a business between an investor and its associate or a joint venture are recognized to the extent of unrelated investors' interests in the associate or joint venture.

- Gains and losses resulting from transactions involving assets that do constitute a business between an investor and its associate venture should be recognized in full in the investor's financial statements.

IFRS 10 has been amended to reflect the following:

- Gains and losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interest in that associate or joint venture. Similarly, gain and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interest in the new associate or joint venture.

- Amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interest in Other Entities*, and IAS 28, *Investments in Associates and Joint Ventures, -Investment entities: Applying the consolidation exception* (issued on Dec 2014), is effective for annual periods beginning on or after 1 January 2016 and apply retrospectively with earlier application permitted.

  The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10.

  Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

  The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

  An investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12.

3. Significant accounting policies

3.1 Statement of compliance

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards (hereinafter – IFRS). IFRS are Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise:

- International Financial Reporting Standards;
- International Accounting Standards;
- International Financial Reporting Interpretations Committee (IFRIC) Interpretations; and
- Standing Interpretations Committee (SIC) Interpretations.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied.

3.2 Going concern

These financial statements have been prepared in accordance with going concern basis.

After making assessments, the Company's management has a reasonable expectation that the Company is able to continue its operational existence in the foreseeable future.

3.3 Basis for measurement

The financial statements are prepared on the historical cost basis.

3.4 Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram (AMD), which is the currency in which the Company's financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

3.5 Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRSs. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3.5.1 Estimation uncertainties

The following are important assumptions and other estimation uncertainties concerning the future as at the reporting date, which have a significant impact on the current values of assets and liabilities:

a) *Deferred tax assets (Note 12)*

The Company has recognised deferred tax asset in respect of differences between tax and accounting bases which is mainly due to up-front payment received on Meghry-Kajaran gas pipeline (Note 23).

The Company's management expects that the gas pipeline will be disposed in near future which will generate a sufficient taxable profit against which the deductible temporary difference can be utilized.

3.6 Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions. Settlement rate established by the Central Bank of the Republic of Armenia is taken as a currency. At the reporting date:

a) foreign currency monetary items are reported (restated) using the closing rate (reporting date);

b) non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

Foreign exchange gains and losses arising on the settlement of transactions or from the translation at year–end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

3.7 Financial instruments

The following non-derivative financial instruments are available at the Company:

- Receivables;
- Payables;
- Loans and borrowings;
- Cash and cash equivalents.

Receivables and payables, loans and borrowings are not classified as financial instruments carried at fair value, the modifications to which are reflected in the profit and loss for the period.
Cash and cash equivalents comprise cash balances and demand deposits.

3.7.1 Recognition and initial measurement

The financial instrument is recognized on the balance sheet (accounting) when, and only when, the Company becomes a party to the contractual provisions of the transaction. When a financial asset or financial liability is recognized initially, the Company measures it at fair value plus expenditures directly related to the transaction. Fair value of short term (with less than 6 months of maturity period) receivables and payables is equal to the transaction price, i.e. the nominal amount of monetary assets receivable (payable) against receivables (payables), if the effect of discount is immaterial.

3.7.2 Subsequent measurement

After initial recognition the payables and receivables, loans and borrowings received are measured at amortized cost, using the effective interest method less impairment losses. Amortized cost of a financial asset or financial liability is the amount at which the financial asset or liability was measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount and minus any write-down for impairment or uncollectability. The effective interest method is a method of calculating amortization using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity or the next market-based review date to the current net carrying amount of the financial asset or financial liability. It includes all payments paid or received between the contract parties.

3.7.3 Derecognition of financial instruments

The Company derecognises a financial asset (receivables) when, and only when:

a) the contractual rights to the cash flows from the financial asset expire; or
b) If the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities (payables, loans and borrowings received) are written off from the company's balance sheet when and only when it is settled, i.e. when the contractual provisions under the contract have been fulfilled or declared void or expired (limitation of action).

3.8 Share capital

3.8.1 Ordinary shares

Incremental costs directly attributable to issue of ordinary shares are recognized as a deduction from equity.

3.8.2 Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

3.8.3 Dividends

Dividends are recognized as a liability during the period when it they are declared.

3.9 Property and equipment

3.9.1 Recognition and measurement

The cost of an item of property and equipment is recognised as an asset if, and only if:

a) it is probable that future economic benefits associated with the item will flow to the Company; and
b) the cost of the item can be measured reliably.

Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property and equipment when the Company expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property and equipment, they are accounted for as property and equipment.
The part of the PPE that is recognized as asset is measures by initial value.
Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

3.9.2 Subsequent expenditures

The cost of replacing part of an item of property and equipment is recognised in the carrying amount (are capitalized) of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

Apart from the above, other expenditures on PPE items (e.g. servicing, maintenance), are not added to the book value of the PPE item (are not capitalised).

3.9.3 Subsequent measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

3.9.4 Depreciation

The depreciable amount of an item of property and equipment is allocated on a systematic basis over its useful life using the straight-line method.

Depreciation of the PPE item is calculated when it is available for exploitation, i.e. when the venue and the status of the PPE item allow its exploitation per the Company's intentions. Depreciation calculation is ceased at an earlier of the following dates:

a) when the PPE item is classified as available for sale in accordance with IFRS 5;

b) when the PPE item is derecognized.

Depreciation calculation does not cease when the PPE item is no longer used or is removed from active usage unless total amortization.

Useful lives for all PPE are expressed in periods. The following are the estimated useful lives:

Buildings	30 years
Constructions	30 years
Conveyance schemes	30 years
Machinery and equipment /new/	20 years
Machinery and equipment /old/	5 years
Vehicles	10-15 years
Production property	5-10 years
Other	1-5 years

3.9.5 Construction in Process

Unfinished property and equipment are those assets in the process of construction. The initial cost includes cost of materials, labor and other direct expenditures.
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
The depreciation on construction in process commences since the completion and exploitation of constructed asset.

3.10 Intangible assets

3.10.1 Measurement

Intangible assets that are acquired by the Company are measured at cost less accumulated amortization and accumulated impairment losses.

3.10.2 Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset, replaces or services its component, providing that the Company may demonstrate that these expenditures meet the definition and recognition criteria of intangible assets. All other expenditures are recognized in profit or loss when incurred.

3.10.3 Subsequent expenditure

After initial recognition the intangible asset is measured at initial cost less accumulated amortization and accumulated impairment losses.

3.10.4 Amortization

The depreciable amount of an intangible asset is allocated on a systematic basis over its useful life on a straight-line basis.
Amortisation of an intangible asset is calculated from the moment since the asset is available for use. Amortisation ceases at an earlier of the following two dates:

a) when the intangible asset is classified as held for sale; etc.

b) when the intangible asset is derecognized.

The estimated useful lives are as follows:

Perspective development schemes of RA energy system	5 years
Accounting software and other software	5-10 years

3.11 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on average weighted principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.12 Impairment

At each reporting date, property and equipment and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

The Company assesses at each reporting date whether there is any objective indication that financial assets (or group of similar assets) measured at cost or amortized costs may be impaired. If any such indication exists, the impairment loss is recognized directly in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. 13 Short-term employee benefits

Short-term employee benefits include wages, salaries short-term compensated absences (such as paid annual leave and paid sick leave), and bonuses.

When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

a) as a liability after deducting the amount already paid. If the amount already paid exceeds the undiscounted amount of benefits, the Company recognizes this difference as an asset to the extent this prepayment will lead e.g. to a decrease in future payments, or recovery of financial resources; and

b) as an expense, unless it is included in the carrying amount of another asset.

3.14 Non-current assets held for sale and discontinued operations

A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use, the asset is available for immediate sale in its present condition and its sale must be highly probable with a year after the reporting year end.

The Company measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Company recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell.

3.15 Revenue

3.15.1 Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

3.15.2 Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date.

Revenue from electricity transmission services is recognized parallel with the provision of services on monthly basis. Completion stage is assessed by reference to surveys of work performed.

3.16 *Government grants*

A government grant is not recognized by the Company until there is reasonable assurance that it will comply with the conditions attaching to it, and that the grant will be received. Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

3.16.1 Government grants related to assets

Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by setting up the grant as deferred income.

Presentation method used by the Company sets up the grant as deferred income which is recognised as income on a systematic and rational basis over the useful life of the asset.

3.16.2 Government grants related to income

Grants related to income are presented under a general heading such as "Other income".

3.17 Income taxes

Income tax on current year profit or loss consists of current and differed tax. Current and deferred taxes are recognized as an income or expense and are included in the net profit or loss of the period, except to the extent that the taxes arise as a result of an event or a transaction which is recognized directly in equity during the same or another reporting period, in which case current and deferred taxes are recognized directly in equity.

3.17.1 Current tax

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the budget, using the tax rates that have been enacted by the balance sheet date.

3.17.2 Deferred tax

Deferred taxes (deferred tax liabilities and deferred tax assets) of the Company are conditioned by carry-forward of temporary differences (taxable and deductible temporary differences) and unused tax losses to the future periods.

Deferred taxes arising as a result of temporary differences are calculated using balance sheet liability method, based on the temporary differences between the carrying amounts of assets and liabilities used for preparation of financial statements, and amounts used for taxation purposes (tax base).

A deferred tax liability is recognized for all taxable temporary differences unless the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognized for deductible temporary differences to the extent that it is probable that the taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognized for unused tax losses carried forward, to the extent that it is probable that the taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied upon realization of the asset or settlement of liability, based on the tax rates that have been enacted or substantially enacted as of the balance sheet date.

3.18 Operating lease

Company as a lessor presents assets subject to operating leases in its statements of financial position according to the nature of the asset.
Lease income from operating leases is recognized in income on a straight-line basis over the lease term.
Costs, including depreciation, incurred in earning the lease income are recognized as an expense.

3.19 Financial expense and income

Finance income comprises interest income accrued on current accounts.
Finance expenses comprise interest costs on borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs expensed in the period in which they accrued.

3.20 Changes in accounting policies, changes in accounting estimates and material errors

3.20.1 Changes in accounting policies

An entity shall change an accounting policy only if the change is required by an IFRS, or if results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Company's financial position, financial performance or cash flows.

The following are not changes in accounting policies:

a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

The Company accounts for a change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS. When the Company changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, the change is applied retrospectively.

When a change in accounting policy is applied retrospectively, the Company adjusts the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

There were no accounting policy changes in the reporting year that could have effect in these financial statements.

3.20.2 Changes in accounting estimates

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

There were no changes in an accounting estimate in the reporting year that has an effect in the financial statements of the current period or is expected to have an effect in future periods.

3.20.3 Prior period errors

Prior period errors are omissions from, and misstatements in, the financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Prior period material errors are corrects retrospectively after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

3.21 Restatement of comparative information

In the reporting year some adjustments were applied retrospectively regarding to the previous years:

a) adjusting tax liabilities:

- non-resident tax liability: 101,700 thousand AMD, which was capitalized into cost of "Construction-in-progress" with 44,987 thousand AMD in year 2013 and 56,713 thousand AMD in year 2014;
- VAT liability of 3,880 thousand AMD in year 2014;

- Corporate income tax of 161 thousand AMD in year 2014.

b) In year 2009, the Company transferred 30,000 thousand AMD to other organization for free, however the amount was recorded as receivable.

c) In year 2012, 3,915 thousand AMD was over expensed and paid to a construction company for repairs.

d) The Company did not calculate delay fees in the amount of 7,197 thousand AMD on borrowings provided to other organizations.

The above adjustments had the following effect on corresponding results:

a) Statement of Financial Position
As at 01.01.2014

Item	Previously presented	Adjustment increase/ (decrease)			Restated
	01.01.2014	a	b	c	01.01.2014
Property and equipment	46,845,671	44,987	-	-	46,890,658
Trade and other receivables	2,688,302	-	(30,000)	3,915	2,662,217
Trade and other payables	11,727,200	44,987	-	-	11,772,187
Retained earnings	9,858,037	-	(30,000)	3,915	9,831,952

b) Statement of Financial Position
As at 31.12.2014

Item	Previously presented	Adjustment increase/ (decrease)			Restated
	31.12.2014	01.01.2014 adjustments effect	a	b	31.12.2014
Property and equipment	49,167,791	44,987	56,713	-	49,269,491
Trade and other receivables	4,369,304	(26,085)	-	7,197	4,350,416
Income tax prepayment	365,948	-	(161)	-	365,787
Trade and other payables	11,382,614	44,987	60,593	-	11,488,194
Retained earnings	9,844,544	(26,085)	(4,041)	7,197	9,821,615

c) **Statement of Profit and Loss and other comprehensive income**
For the year ended 31.12.2014

Item	Previously presented	Adjustment increase/ (decrease)		Restated
	Year ended 31.12.2014	a	d	Year ended 31.12.2014
Other income	939,067	-	7,197	946,264
Other expenses	(776,600)	(3,880)	-	(780,480)
Income tax expense	(717,033)	(161)	-	(717,194)

4. Revenue

		Thousand drams
	2015	**2014**
Electricity transmission services		
Inside of the RA	*6,344,325*	*6,818,021*
From Armenia to Iran	*1,222,196*	*1,273,678*
From Armenia to Georgia	-	*53,521*
From Georgia to Iran	*94,507*	*152,217*
	7,661,028	8,297,437
Sale of electricity produced	135,096	136,993
Sale of electricity	572	44,183
Other services	7,796,696	8,478,613
	6,344,325	*6,818,021*

The tariff on services rendered by the Company is determined by Public Services Regulatory Commission of the Republic of Armenia (PSRC).

a) Price for electricity transmission services to electricity network (without VAT).

Effective date	AMD/kWh
01.08.2015	0.8595
01.08.2014	1.3644
07.07.2013	1.0657
01.04.2012	0.3322
01.04.2011	0.8270
01.04.2010	0.7100
01.10.2009	0.3600
01.04.2009	0.8910
01.07.2008	0.3280
01.01.2008	0.8750

b) Price for electricity produced on "Lory-1" wind turbine station (without VAT)

Effective date	AMD/kWh
01.07.2015	42.426
01.01.2014	37.0072
01.01.2013	34.957
01.01.2012	35.339
01.01.2011	33.756
01.01.2010	32.816
01.01.2009	31.387
01.01.2008	31.447

5. Cost of sales

Thousand drams

	2015	2014
Depreciation of property and equipment	2,254,958	2,182,175
Salaries and wages	1,158,774	1,188,091
Materials	115,630	98,070
Electricity cost	3,198	37,507
Other costs	68,469	71,155
	3,601,029	3,576,998

6. Administrative expenses

Thousand drams

	2015	2014
Salaries and wages	818,693	754,771
Depreciation of property and equipment	53,903	38,280
Exploitation and maintenance costs	57,779	51,783
Utilities	45,442	38,335
Non-reimbursable taxes	44,315	36,133
Business trip costs	31,209	28,974
Repair costs	22,490	20,140
Communication costs	20,819	13,518
Audit and consulting	12,176	11,572
Amortization of intangible assets	5,375	3,332
Office costs	4,593	4,212
Other	70,772	19,676
	1,187,566	1,020,726

7. Other income

	2015	2014
		Thousand drams
Fines accrual	196,416	196,185
Income from grants related to income	158,142	8,989
Accrued and effective interest differences	134,153	199,839
Operating lease	52,243	51,557
Income from tenders	11,753	-
Sales of inventory	10,831	244,183
Income from design services	6,875	-
Income from grants related to assets	4,439	4,371
Tax concession from estimation of fines on income tax of non-resident	-	227,738
Other income	46,303	13,402
	621,155	946,264

8. Other expenses

	2015	2014
		Thousand drams
Depreciation of PPE	510,559	510,559
Fines and penalties	202,731	15,756
Write-off of receivables	189,522	1,560
Expenditures for other organization under the scope of IBRD grant on electricity network improvement	78,299	-
Electricity system sustainability and safety boards' development	37,915	-
Cost of inventory disposed	16,929	53,129
Trainings	16,511	63,977
Lease expenses	34	29,444
Inventory valuation, inventarization	2	45,680
Other expenses	53,492	60,375
	1,105,994	780,480

9. Finance costs

	2015	2014
		Thousand drams
Interest expenses (note 20.1.a)	476,993	592,314
	476,993	592,314

10. Finance income

	2015	2014
		Thousand drams
From lending (note 18.1)	31,831	59,413
From other reimbursement	34,998	68,657
From demand accounts	6,160	5,415
	72,989	133,485

11. Other gain/(loss)

	2015	2014
		Thousand drams
Foreign currency gain/(loss) on loans	*616,165*	*(2,046,660)*
Foreign currency gain/(loss) on grant related to assets	*165,293*	*(355,397)*
Foreign currency gain/(loss) on grant related to income	*(9,177)*	*(44,013)*
Foreign currency gain/(loss) on cash	*(154,175)*	*145,356*
Foreign currency gain/(loss) on other items	*125,229*	*(339,607)*
	743,335	(2,640,321)
Gain/(loss) on PPE disposal (note 13.b)	12,307	15,332
Loss from PPE liquidation (note 13.b)	(12,982)	(10,629)
Loss from intangible assets liquidation (note 14.b)	(7,776)	-
Denoted assets	(33,898)	(12,818)
From impairment of PPE	(840,230)	-
From liquidation of assets held for sale	-	(226,572)
Other	(33,583)	(5,979)
	(172,827)	(2,880,987)

12. Income tax

A 20% income tax rate is applied on the Company's taxable profit in accordance with the Law "On Income tax" of the Republic of Armenia (2014 - 20%).
In accordance with the above law the Company is required to make minimum prepayments of income tax in 75% of actual amount of the prior year income tax. Besides that, according to the above mentioned law in the reporting and previous years the Company has made minimum prepayments of income tax which are subject for reduction from income tax payables in future years. Requirement of minimum prepayment of income tax will not be effective starting 01.01.2014.

12.1. Income expense

	2015	2014
		Thousand drams
On current tax (note 12.3)	194,383	31,596
On deferred tax (note 12.2.b)	192,143	685,598
Income tax expense	386,526	717,194

12.2. Deferred tax assets

	2015	2014
		Thousand drams
On unused tax losses (a)		
Opening balance	-	142,902
Current tax loss/(offset)	-	(142,902)
Closing balance	-	-
On deductible temporary differences (b)		
Opening balance	1,387,667	1,930,363
Reimbursement/(expense) for the year	(192,143)	(542,696)
Closing balance	1,195,524	1,387,667
Total closing balance	1,195,524	1,387,667

(a) Unused tax losses

In accordance with the law "On Income tax" of the Republic of Armenia the losses incurred by the Company`s activity is transferred to the next 5 years.

(b) Movement of temporary differences during the year

Thousand drams

2015	**Opening balance**	**Recognized in profit/(loss)**	**Closing balance**
Property and equipment	(463,675)	(196,957)	(660,632)
Accounts payable (a)	1,851,342	1,294	1,852,636
Accounts receivable	-	3,520	3,520
	1,387,667	(192,143)	1,195,524

Thousand drams

2014	Opening balance	Recognized in profit/(loss)	Closing balance
Property and equipment	71,306	(534,981)	(463,675)
Accounts payable (a)	1,857,262	(5,920)	1,851,342
Accounts receivables	1,795	(1,795)	-
	1,930,363	(542,696)	1,387,667

(a) During the previous years, the money up-front fee on Megri-Kajaran gas pipeline in the amount of 9,137,100 thousand AMD was assessed as overdue for tax purposes (recognized as taxable income) (Note 23). In the year of settlement of the payable, the settled amount will be deducted from the taxable income.

12.3. Current tax

Effective tax rate reconciliation

	2015		2014	
	Thousand drams	%	*Thousand drams*	%
Loss before tax in accordance with IFRS	1,946,431		706,857	
Income tax calculation at the defined tax rate	389,286	20	141,371	20.0
Tax effect of foreign exchange loss (note 11)	(148,667)	(7.6)	528,064	74.7
Effect of PPE impairment	168,046	8.6	-	-
Previous year tax loss use	-		(142,902)	(20.2)
Difference between PPE tax and accounting depreciation costs	(304,854)	(15.7)	(490,628)	(69.4)
Tax penalties and from recalculation	36,676	1.9	(45,548)	(6.4)
From non-taxable grants	(6,597)	(0.3)	(42,191)	(6.0)
Tax effect of non-deductible interest costs	-	-	52,996	7.5
Effect of write-off of receivables	37,904	1.9	-	-
Effect of denoted assets	6,780	0.3	12,818	1.8
Effect of non-operational expenses	6,716	0.3	15,977	2.3
Tax effect of other non-deductible expenditures/(non-taxable incomes)	9,093	0.4	1,639	0.2
Current income tax expense (reimbursement) and effective current tax rate	194,383	9.8	31,596	4.5

12.4 Current income tax prepayment

	2015	2014
		Thousand drams
Opening balance	365,787	397,383
Current income tax (note 12.3)	(194,383)	(31,596)
Fines/penalties on income tax (note 8)	(97)	-
Income tax paid	449	-
Closing balance	171,756	365,787
Including minimum income tax	-	*61,013*

13. Property and equipment

Thousand drams

		Buildings	Constructions	Conveyance schemes	Machinery, equipment	Vehicles	equipment, tools	Perennial plants	Other	Construction-in-process	Land	Total
Cost												
As at 01.01.2014		3,592,715	2,993,718	66,835,597	56,545,414	1,259,634	525,709	532	1,581,919	4,569,319	90,583	137,995,140
Additions	**Total**	81,098	661,761	30,989	2,281,326	18,250	46,207	-	6,797	2,045,518	55,490	5,227,436
	Acquisition	-	-	-	12,589	18,250	46,207	-	6,471	4,931,459	55,484	5,070,460
	Capitalization	42,081	10,734	30,989	72,846	-	-	-	326	-	-	156,976
	From Construction-in-process	39,017	651,027	-	2,195,891	-	-	-	-	(2,885,941)	6	-
Deductions	**Total**	(9,918)	(41,695)	-	(661,934)	(340,618)	-	-	(104,280)	-	-	(1,158,445)
	Disposal	-	-	-	(201,908)	(340,618)	-	-	-	-	-	(542,526)
	Liquidation	(9,918)	(41,695)	-	(460,026)	-	-	-	(104,280)	-	-	(615,919)
Reclassification	To current asset	-	-	-	(384,143)	-	-	-	-	(75,492)	-	(459,635)
As at 31.12. 2014		3,663,895	3,613,784	66,866,586	57,780,663	937,266	571,916	532	1,484,436	6,539,345	146,073	141,604,496
Additions	**Total**	152,178	-	120,999	36,659	891	46,928	-	42,493	5,498,409	423,093	6,321,650
	Acquisition	-	-	-	126	-	46,928	-	42,493	5,498,382	423,093	6,011,022
	Capitalization	152,178	-	120,964	36,533	891	-	-	-	62	-	310,628
	From Construction-in-process	-	-	35	-	-	-	-	-	(35)	-	-
Deductions	**Total**	(7,470)	(2,681)	-	(378,083)	(111,347)	(26,883)	-	(3,669)	-	-	(530,133)
	Disposal	(649)	(1,332)		(345,604)	(111,347)	(26,883)					(485,815)
	Liquidation	(6,821)	(1,349)		(32,479)				(3,669)			(44,318)
Reclassification	internal	(8,832)	21,335	-	5,133	-	(4,544)	(430)	(12,662)	-	-	-
As at 31.12. 2015		3,799,771	3,632,438	66,987,585	57,444,372	826,810	587,417	102	1,510,598	12,037,754	569,166	147,396,013

		Buildings	Constructions	Conveyance schemes	Machinery, equipment	Vehicles	equipment, tools	Perennial plants	Other	Construction-in-process	Land	Total
Accumulated depreciation												
As at 01.01.2014		2,627,347	2,137,818	46,230,130	34,681,255	1,095,681	435,368	37	835,031	-	-	88,042,667
Additions		66,926	52,604	902,902	1,627,784	17,790	45,666	-	17,342	-	-	2,731,014
Deductions		(9,918)	(35,620)	-	(457,459)	(340,618)	-	-	(104,276)	-	-	(947,891)
Reclassification	To inventory	-	-	-	(357,763)	-	-	-	-	-	-	(357,763)
As at 31.12. 2014		2,684,355	2,154,802	47,133,032	35,493,817	772,853	481,034	37	748,097	-	-	89,468,027
Additions		74,295	118,303	942,658	1,570,518	19,391	31,278		62,978			2,819,421
Deductions Additions	Total	(7,256)	(1,810)	-	(153,154)	(111,240)	(26,482)	-	(143)	-	-	(300,085)
	Liquidation	(6,820)	(478)	-	(8,670)	-	-	-	(143)	-	-	(16,111)
	Disposal	(436)	(1,332)	-	(144,484)	(111,240)	(26,482)	-	-	-	-	(283,974)
Deductions		(4,462)	18,773	-	(10,884)	-	(879)	65	(2,613)	-	-	-
As at 31.12. 2015		2,746,932	2,290,068	48,075,690	36,900,297	681,004	484,951	102	808,319	-	-	91,987,363
Accumulated impairment												
As at 01.01.2014		100	7,155	78,516	2,945,384	2,031	13,852	-	14,777	-	-	3,061,815
Reclassification		-	-	-	(2,907)	-	-	-	-	-	-	(2,907)
Disposal		-	-	-	(191,930)	-	-	-	-	-	-	(191,930)
As at 31.12. 2014		100	7,155	78,516	2,750,547	2,031	13,852	-	14,777	-	-	2,866,978
Additions		-	98	83,668	754,652	-	776	-	1,036	-	-	840,230
Disposal	Total	-	-	-	(212,688)	(39)	(153)	-	-	-	-	(212,880)
	Liquidation	-	-	-	(15,225)	-	-	-	-	-	-	(15,225)
	Disposal	-	-	-	(197,463)	(39)	(153)	-	-	-	-	(197,655)
Reclassification		-	159	-	1,225	-	(4,784)	-	3,400	-	-	-
As at 31.12. 2015		100	7,412	162,184	3,293,736	1,992	9,691	-	19,213	-	-	3,494,328
Current value												
As at 01.01.2014		965,268	848,745	20,526,951	18,918,775	161,922	76,489	495	732,111	4,569,319	90,583	46,890,658
As at 31.12.2014		979,440	1,451,827	19,655,038	19,536,299	162,382	77,030	495	721,562	6,539,345	146,073	49,269,491
As at 31.12.2015		1,052,739	1,334,958	18,749,711	17,250,339	143,814	92,775	-	683,066	12,037,754	569,166	51,914,322

(a) Additions to property and equipment during the reporting year include:

	Thousand drams
Construction-in-process, including:	5,498,382
- Borrowing costs capitalized (note 20.2.b)	*730,445*
Land	423,093
Capitalized expenses	310,628
Acquisition of other PPE	89,547
Total	**6,321,650**

(b) Deductions of PPE of the reporting year

Thousand drams

	Cost	Accumulated depreciation and impairment	Current value	Proceeds from liquidation/ Value of disposal	Gain/(loss) from disposal/ liquidation
Liquidated PPE	44,318	(31,336)	12,982	-	(12,982)
Disposed PPE	485,815	(481,629)	4,186	16,493	12,307
Total	530,133	**(512,965)**	17,168	16,493	**(675)**

c) Movement on construction-in-process for reporting year

Thousand drams

	Balance as at 01.01.2015	Additions	Deductions	Balance as at 31.12.2015
Air-lines in process of construction, financed through loan in the amount of 39 million – in Gegharkunik and Kotayk marz	5,578,986	4,889,371	-	10,468,357
Construction of Armenia-Georgia air-lines, substation of Ayrum and Ddmashen through KfW bank financing	-	226,449	-	226,449
Construction of Air-line: Iran-Armenia 3	960,324	180,270		1,140,594
Building of Ashnak substation and EOS operator reserve center under the scope of the Project on improving electricity network system	-	100,123	-	100,123
Renovation of substations (Haghtanak, Charentsavan, Vanadzor) under the scope of the additional financing for the Project on improving electricity network system	-	94,703	-	94,703
Renovation of Agarak-Shinhayr substation	-	6,996	-	6,996
Renovation of Ararat-2 and Eghegnadzor substations	-	470	-	470
Air-line: Branch Bjni 110kW	35	-	(35)	-
Total	6,539,345	5,498,382	(35)	12,037,692

14. Intangible assets

Thousand drams

	Patents, licenses	Computer software	Other	Total
Initial cost				
As at 1 January 2014	19,500	21,838	-	41,338
Additions	3,800	990		4,790
As at 31 December 2014	23,300	22,828	-	46,128
Addition	29,200	-	3,800	33,000
Deductions	(19,500)	-	-	(19,500)
As at 31 December 2015	33,000	22,828	3,800	59,628
Accumulated Amortization				
As at 1 January 2014	9,735	11,270	-	21,005
Amortization of the year	1,963	1,369	-	3,332
As at 31 December 2014	11,698	12,639	-	24,337
Amortization of the year	3,513	1,463	399	5,375
Deductions	(11,724)	-	-	(11,724)
As at 31 December 2015	3,487	14,102	399	17,988
Current value				
As at 1 January 2014	9,765	10,568	-	20,333
As at 31 December 2014	11,602	10,189	-	21,791
As at 31 December 2015	29,513	8,726	3,401	41,640

15. Other non-current assets

Thousand drams

	31.12.2015	**31.12.2014**
Advances for acquisition of non-current assets (a)	675,822	1,312,507
Other	200	200
	676,022	1,312,707

(a) The advances are mostly consist prepayment balance on construction organization for air-line constructed in Kotayk marz.

16. Inventory

Thousand drams

	31.12.2015	**31.12.2014**
Spare parts	408,167	406,475
Materials	597,294	605,114
Accessories	366,072	366,888
Construction materials	647,173	649,779
Other	60,026	57,036
	2,078,732	2,085,292

17. Trade and other receivables

	Thousand drams	
	31.12.2015	**31.12.2014**
Trade receivables		
Receivables on electricity transmission (a)	4,273,756	2,139,829
Receivables on electricity produced	25,593	34,788
Inventory sale	13,487	39,630
PPE sale	2,487	4,230
Operating lease	7,054	6,684
Other	90	-
	4,322,467	2,225,161
Allowance for uncollectability	(17,600)	-
	4,304,867	2,225,161
Other receivables		
Prepayments on taxes	281,714	346,599
Loans commitment fees (b)	3,389,301	1,492,988
Receivables on fines accrued	202,617	10,834
Grants receivables	-	264,827
Other	16,470	10,007
	3,890,102	2,125,255
	8,194,969	4,350,416

(a) Most of trade receivable balance is settled as at April 2016.

(b) The balance of loans' commitment fee represents non-amortized proportional share of receivable trashes.

18. Financial assets

	Thousand drams	
	31.12.2015	**31.12.2014**
Borrowings provided (note 18.1)	141,020	4,688
	141,020	4,688

18.1. Lending movement

2015

Thousand drams

Borrower	Opening balance	Movement of the year			Closing balance
		Disburse ment	Interest income	Redemp tion	
"Yerevan TPP" CJSC (a)	-	1,700,000	66,829	155	(1,630,652)
"Jrhan" CJSC	4,688	-	-		-
Total	4,688	1,700,000	66,829	155	(1,630,652)

(a) The balance was settled as at April 2016.

2014

Thousand drams

Borrower	Opening balance	Movement of the year			Closing balance
		Disburse ment	Interest income	Redemp tion	
"ArmRusGasProm" CJSC	212,168	43	12,113	(224,324)	-
"Yerevan TPP" CJSC	-	600,000	115,957	(715,957)	-
"Jrhan" CJSC	4,688	-	-	-	4,688
Total	216,856	600,043	128,070	(940,281)	4,688

19. Cash and cash equivalents

Thousand drams

	31.12.2015	31.12.2014
Bank balances (AMD)	675,703	158,444
Bank balances (EUR)	26,999	10,277
Bank balances (USD)	100	1,716,462
Cash on desk (AMD)	2,351	4,315
	705,153	1,889,498

20. Loans and borrowings

Thousand drams

	31.12.2015	31.12.2014
Non-current	22,112,186	20,573,124
Current	1,563,063	3,149,753
	23,675,249	23,722,877

20.1. Loan movement

	Balance 01.01.2015	Remeasuring	Received	Recognition of Grant	Cost of the year	Redemption	FX changes	Balance 31.12.2015
KFW 14.060.527 Euro, 0.75 % interest	6,744,635 € 11,679,628				44,730 € 84,622	(301,239) (€ 571,294)	(570,522)	5,917,604 € 11,192,956
KFW 4.700.000 Euro, 5 % interest	625,400 € 1,083,000				24,064 € 45,526	(404,693) (€ 767,526)	(53,913)	190,858 € 360,999
WB 19.600.000$, 0.5% interest	7,162,013 $15,078,875				34,865 $ 72,467	(416,594) ($ 866,114)	130,195	6,910,479 $ 14,285,227
WB 8.988.290$, 0.5% interest	2,374,863 $5,000,026				11,398 $ 23,818	(316,720) ($ 655,487)	43,651	2,113,192 $4,368,358
KFW 7.300.000 Euro 0,75% interest-Tranche-1	708,829 € 1,227,474	51,896 € 89,867			84,840 € 160,502	(24,974) (€ 47,362)	(64,310)	756,281 € 1,430,481
KFW 7.300.000 Euro 2,88% interest- Tranche-2	2,246,131 € 3,889,607	60,178 € 104,210			241,494 € 456,871	(402,731) (€ 763,787)	(195,845)	1,949,227 € 3,686,900
International Bank of Reconstruction and Development 39 million USD 1,83%	2,127,889. $4,480,049	267,121 $ 562,396	2,382,351 $ 4,995,002	(1,527,158) ($ 3,201,965)	390,237 $ 808,895	(135,353) ($ 280,960)	56,966	3,562,053 $ 7,363,417
IBRD 39 million loan cofinancing	186,737	24,805	1,560,758	(991,297)	86,030	(22,831)	-	844,202
ADB 15,192,000$ loan cofinancing			31,444	(19,687)	366	(2)	-	12,121
ADB 15,192,000 SDR			125,400 SDR 186,558	(78,784) (SDR 117,461)	1,926 SDR 2,885	- -	(173)	48,369 SDR 71,986
IBRD 40,000,000 $			47,623 $ 100,000	(32,701) ($ 68,667)	1,585 $ 3,300	- -	247	16,754 $ 34,633
IBRD 52,000,000 $			26,098 $ 54,486	(20,060) ($ 41,879)	15,356 $ 31,842	(11,779) ($ 24,450)	60	9,675 $ 19,999
Iran-Armenia air-line financing loan of IEDB			927,640 € 1,742,600		57,993 € 109,691	- -	(6,345)	979,288 € 1,852,291
					68,125 $ 125,000	(68,125) ($ 125,000)	- -	- -
Armenian Renewable Resources and Energy Efficacy Fund			25,968			(374)		25,594
Armenian Renewable Resources and Energy Efficacy Fund			26,278			(1,278)		25,000
Armenian Renewable Resources and Energy Efficacy Fund			22,094			(548)		21,546
Sanir FZE			276,976 € 520,517		17,814 € 33,694	- -	(1,784)	293,006 € 554,211
Vorotan Hydro Electricity Station	1,546,380					(1,546,380)		-
KFW 10,200,000 €	- -		- -		10,896 € 20,613	(10,880) (€ 20,613)	(16)	- -
KFW 75,000,000 €	- -				80,117 € 151,563	(80,001) (€ 151,563)	(116) -	
ArdshinBank 5,000,000 $			2,358,900 $ 5,000,000		35,602 $ 71,945	(2,440,242) ($ 5,071,945)	45,740	- -
Total	23,722,877	404,000	7,811,536	(2,669,687)	1,207,438	(6,184,750)	(616,165)	23,675,249

2014

	Balance 01.01.2014	Remeasuring	Received	Recognition of Grant	Cost of the year	Redemption	FX changes	Balance 31.12.2014
KFW 14.060.527 Euro, 0.75 % interest	6,807,794 € 12,166,769				49,984 € 88,186	(325,164) (€ 575,327)	212,021	6,744,635 € 11,679,628
KFW 4.700.000 Euro, 5 % interest	1,005,256 € 1,796,575		4,839 € 8,724		46,331 € 81,896	(454,434) (€ 804,196)	23,408	625,400 € 1,083,000
WB 19.600.000$, 0.5% interest	6,438,611 $15,872,723				33,202 $76,343	(372,916) ($870,192)	1,063,116	7,162,013 $15,078,875
WB 8.988.290$, 0.5% interest	2,364,565 $5,829,220				13,451 $30,765	(385,651) ($859,958)	382,498	2,374,863 $5,000,026
KFW 7.300.000 Euro 0,75% interest-Tranche-1	559,926 € 1,000,690		403,470 € 659,742	(308,780) (€ 534,713)	83,345 € 147,000	(25,578) (€ 45,246)	(3,554)	708,829 € 1,227,474
KFW 7.300.000 Euro 2,88% interest- Tranche-2	2,125,895 € 3,799,363	(8,743) (€ 15,628)	520,310 € 842,278	(272,234) (€ 471,426)	287,318 € 507,101	(436,354) (€ 772,082)	29,939	2,246,131 € 3,889,607
International Bank of Reconstruction and Development 39 million USD 1,83%	849,260 $2,093,629	8,435 $20,794	3,117,902 $6,766,787	(2,272,135) ($4,783,744)	218,304 $516,218	(55,396) ($133,635)	261,519	2,127,889 $4,480,049
IBRD 39 million loan cofinancing	11,985	119	531,249	(376,378)	21,236	(1,474)		186,737
ASHIB EURO	755,379 € 1,350,000				22,718 € 40,022	(794,927) (€ 1,390,022)	16,830	
ASHIB USD	409,696 $1,010,000				5,938 $14,582	(418,775) ($1,024,582)	3,141	
ASHIB USD			602,163 $1,451,030		48,614 $115,200	(708,518) ($1,566,230)	57,741	
ASHIB AMD			123,000		777	(123,777)		
ASHIB AMD			100,000		636	(100,636)		
Vorotan Hydro Electricity Station	2,046,380					(500,000)		1,546,380
Total	23,374,747	(189)	5,402,933	(3,229,527)	831,854	(4,703,600)	2,046,659	23,722,877

20.2. Finance costs on loans and borrowings

Thousand AMD

	31.12.2015	31.12.2014
Finance costs of the period (a) (Note. 9)	476,993	592,314
Capitalized on cost of construction (b) (Note 13.b)	730,445	239,540
	1,207,438	831,854

a) Finance costs of the period

Thousand AMD

	31.12.2015	31.12.2014
KFW 7.300.000 Euro 2,88% annual- Transh-2	241,494	287,319
KFW 7.300.000 Euro 0,75% annual- Transh-1	84,839	83,345
KFW 14.060.527 0.75 annual Euro	44,730	49,984
ArdshinBank	35,603	78,682
WB 19.600.000$, 0.5% annual	34,865	33,202
KFW 4.700.000 Euro 5 % annual	24,064	46,331
WB 8.988.290$, 0.5% annual	11,398	13,451
	476,993	592,314

b) Capitalized on cost of construction

Thousand AMD

	31.12.2015	31.12.2014
IBRD 39million $ 1,83%	390,237	218,304
Iran-Armenia air-line financing loan IEDB	138,969	-
IBRD 39 million $ loan cofinancing	86,030	21,236
RoA MoF 75 million €	80,117	-
IBRD 52 million $	15,355	-
RoA MoF 10,2 million €	10,896	-
Sanir FZE	4,962	-
ADB 15.192 million SDR	1,926	-
IBRD 40 million $	1,586	-
ADB 15.192 mil loan cofinancing	367	-
	730,445	239,540

20.3. Summary information on loans

Loan	Financing agreement	Objective	Repayment date	Annual %	Guarantee*/ mortgage
KFW 14.060.527 Euro	Financing of Program of Renovation of Power transmission system dated 25.06.1999	Renovation of Kamo and Vanadzor 2 power transmission system	30/12/2038	0.75	Bills
KFW 4.700.000 Euro	Financing of loan program of "Regional power exchange" "Renovation of Alaverdi-Gardaban Electricity transmission line-2003 66 054" dated 07.02.2005	Renovation of Alaverdi-Gardaban	30/06/2016	5.00	Bills
WB 19.600.000$	Financing of maintenance and reconstruction of 8 substations	Program of electronic transmission and power distribution network	05/12/2033	0.50	Bills
WB 8.988.290$	Contract on Debt transfer 4(48)/CP-2004	Support to system	17/12/2022	0.50	Bills
KFW 14.600.000 Euro Tranche 1-7.300.000	Financing of loan program of "Renovation of Gyumri-2 substation" of 07.11.2009.	"Renovation of Gyumri-2 substation"	30/06/2049	0.75 0.25	Mortgage: transportation lines with pillars, and bill
KFW 14.600.000 Euro Tranche 1-7.300.000	Financing of loan program of "Renovation of Gyumri-2 substation" of 07.11.2009.	"Renovation of Gyumri-2 substation"	30/06/2024	3.78 0.25	Mortgage: transportation lines with pillars, and bill
IBRD 39 million loan	Agreement signed on 01.06.2011 between RoA and IBRD	Electricity Supply Reliability Project	15/06/2036	2.15 1.99 1.83	Bills
Cofinancing for IBRD 39 million loan	Agreement signed on 01.06.2011 between RoA and IBRD	Electricity Supply Reliability Project		2.15	
ADB 15.192 mln SDR loan	Agreement signed on 05.09.2014 between RoA and ADB	Reconstruction of electricity network	15/11/2039	2.00	
Cofinancing of ADB 15.192 mln SDR loan	Agreement signed on 05.09.2014 between RoA and ADB	Reconstruction of electricity network	15/11/2039	2.00	
WB 40 million $ loan	Agreement signed on 06.08.2014 between RoA and IBRD	Improving Reliability and capacity of Electrical Network	15/02/2039	1.83 1.91 2.07	Bills
WB 52 million $ loan	Agreement signed on 08.04.2015 between RoA and IBRD	Improving electrical network and its management reliability. Supporting electricity supply efforts.	11/15/2039	1.24 1.45 0.25	Bills
Iran-Armenia air-line financing loan, IEDB	Agreement 900/M/ARM/09 dated 26.06.2011 between IEDB and HVEN cjsc	Constructing Iran-Armenia 400kW 3rd transmission line and substation	15/03/2022	5.00	

Loan	Financing agreement	Objective	Repayment date	Annual %	Guarantee*/ mortgage
Sanir FZE	Borrowing contract dated 23.02.2012	Design, construction, installation, testing and operation costs of Iran-Armenia 400kW 3rd transmission line and substation	15/09/2018	5.00	
KFW 10.2 million € loan	Agreement dated 09.12.2014 between KfW and RoA	"Caucasus electricity transmission line 1" (Armenia-Georgia transmission lines and substations)	30/12/2054	0.75 0.25	
KFW 75 million €	Agreement dated 09.12.2014 between KfW and RoA	"Caucasus electricity transmission line 1" (Armenia-Georgia transmission lines and substations)	30/12/2029	1.85 0.25	
Armenian Renewable Resources and Energy Efficacy Fund	Contract dated 16.03.2015 between HVEN cjsc Eastern Branch and ARREFF	Implementing energy efficiency projects	30/11/2021	Service fee	
Armenian Renewable Resources and Energy Efficacy Fund	Contract dated 17.08.2015 between HVEN cjsc Zangezur and Goris Branches and ARREFF	Implementing energy efficiency projects	30/07/2025	Service fee	
Armenian Renewable Resources and Energy Efficacy Fund	Contract dated 17.08.2015 between HVEN cjsc Southern Branch and ARREFF	Implementing energy efficiency projects	30/10/2022	Service fee	

(*) As a payment obligations guarantee, in accordance with "Sub-loan agreement" Company has issued and provided to the Ministry of the Finance of the Republic of Armenia interest free notes with nominal value equal to credit redemption annuity and quantity equal to number of repayments.

21. Grants related to assets

	2015	*Thousand drams* 2014
Opening balance	7,961,716	4,757,537
Additions (a)	2,265,687	3,229,720
Reclassification from grants related to income	145,338	-
Foreign exchange (gain)/loss	(165,293)	355,397
Offset with finance costs	(303,146)	(176,728)
Difference between actual and effective rates	(134,153)	(199,839)
Income recognition	(4,439)	(4,371)
Closing balance	9,765,710	7,961,716

a) Additions comprise gain on loans received at a below-market rate of interest (note 20).

22. Grants related to income

	2015	2014
		Thousand drams
Opening balance	308,396	-
Additions (a)	9,458	273,372
Reclassification into grants related to assets	(145,338)	
Foreign exchange (gain)/loss	9,177	44,013
Income recognition	(158,142)	(8,989)
Write-off of grant receivable	(23,551)	
Closing balance	-	308,396

23. Trade and other payables

	31.12.2015	31.12.2014
		Thousand drams
Trade payables		
On PPE	1,973,546	1,879,542
Other	14,573	7,447
	1,988,119	1,886,989
Other payables		
On Money up-front on Megri-Kajaran gas pipeline *	9,137,100	9,137,100
On salary and wages	592	88,143
On taxes	156,357	251,972
On unused vacations	126,078	119,569
Other	12,645	4,421
	9,432,772	9,601,205
	11,420,891	11,488,194

* Money up-front for the pipeline was done on 2007. The deadline of pipeline sale has been periodically postponed by mutual agreement and it is expected to be held in the near future.

24. Share capital instruments

24.1 Increase in share capital

In accordance with the Republic of Armenia Government Decree N 617-N dated 10.06.2015, the borrowing of the Company to "Vorotan Hydro Electricity Station" CJSC in the amount of 1,546,292.8 thousand drams was settled through increase of share capital by 113,698 shares.

24.2 Capital repurchase

In accordance to the decree N 557-A dated 23 May 2015 of the Government of the Republic of Armenia, the Company gave to the shareholder scrap metal in the amount of 21,786 thousand drams against 681 shares repurchase with total nominal value of 9,262 thousand drams.

24.3 Other information

At reporting date (as well as at 31.12.2014) a nominal value of one share is 13,600 drams.

As at reporting date the declared and allocated capital of the Company amounts to 643,752 ordinary shares: 13,600 drams for one share, total: 8,755,027 thousand drams.

25. Compensations to key management

During reporting period, the compensations to key management of the company are the following:

Thousand drams

	2015	2014
Salaries and other short-term reimbursements	33,310	48,119
	33,310	48,119

26. Financial instruments risks

The Company activities expose it to a variety of financial risks: credit risks, interest rate risk and risks related to foreign exchange changes.

26.1 Credit risk

Credit risk is the risk the Company could incur financial losses resulted from the third parties failure to discharge their obligations toward the Company. Credit risk arises from current accounts, trade and other receivables, and advances to suppliers.

As at reporting date, trade receivable of the Company in the amount of 4,304,867 thousand drams mainly includes the receivable amounts of transmitted electricity. The Company has a bank guarantee for collectability of receivables from "Electric Networks of Armenia" CJSC.

As at 31.12.2015 the terms of trade receivables were the following:

Thousand drams

	31.12.2015
Up to 59 days	1,421,767
More than 60-179 days	2,883,100
	4,304,867

26.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Company's interest rate risk aroused from long-term borrowings. Company has loans and borrowings received with fix and variable interest rates from Ministry of Finance of RA (International Development Company, IBRD, KfW) and other international and local banks and local organizations. Borrowing with variable interest rate exposures to interest rate risk of future cash flows and borrowing with fixed interest rate exposures to fair value interest rate risk. The relevant information of indicated loans is presented in note 20.

Management does not have defined policy for decision towards fixed or variable interest rate proclivity.

26.3 Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the currency risk relates to the commercial transactions, recognized assets and liabilities expressed in a currency different from the functional currency.

The Company's exposure to the currency risk relates to loans balances in USD. Management does not hedge the Company's proclivity toward foreign currency risk.

As of 31 December 2015 the Company had the following foreign currencies:

Articles in foreign currency	USD Thousand drams equivalent	EUR Thousand drams equivalent	Total Thousand drams equivalent
Cash and cash equivalents	26,999	100	27,099
Loans	(12,660,521)	(10,086,264)	(22,746,785)
Payables	(1,690,570)	(199,027)	(1,889,597)
Total	(14,324,092)	(10,285,191)	(24,609,283)

The following closing exchange rates are established by the RA Central Bank.

	31.12.2015 AMD	31.12.2014 AMD	AMD Appreciation/ (depreciation)
USD rate is	483.75	474.97	(1.8%)
EUR rate is	528.69	577.47	8.4%

Sensitivity Analysis

The 5% of depreciation of the AMD against the mentioned currencies in comparison to that of 31 December 2015 will reduce the equity by 1,230,464 thousand drams. This analysis assumes that all the other variables, particularly the interest rates will remain unchanged.

The 5% of appreciation of the AMD against the mentioned currencies in comparison to that of 31 December 2015 would have the same amount but an opposite impact on the equity based on the assumption that all the other variables would stay unchanged.

As at 02.05.2016, the exchange rate changes of the mentioned currencies against AMD in comparison to those at 31 December 2015 are as follows:

	02.05.2016 AMD	AMD appreciation / (depreciation)
USD average rate is	478.56	1.1%
EUR average rate is	549.67	(3.8%)

26.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The repayments of borrowings and loan obligations in cash flow obligations are based on loan schedule.

The Company finance department monitors liquidity of the Company to ensure enough cash balances for operational activity following the approved annual cash budget of the Company.

The Company does not have derivative financial liabilities. The following table analysis the Company non-derivative financial liabilities into relevant maturity groupings based on the remaining periods at the reporting date to the contractual maturity date.

Non-derivative financial liabilities	Maturity Periods			
	Up to 6 months	6-12 months	1-5 years	5 and over
Borrowings and loans	922,972	1,044,915	10,029,929	26,766,999
On procurements	124,778	-	1,762,211	-
Employee compensation	592	-	-	-
Total	1,048,342	1,044,915	11,792,140	26,766,999

27. Contingencies

27.1 Insurance

The Company's property and equipment, except vehicles are not insured. The Company does not have coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to Company's operations, except for third party liabilities arising from car accidents. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

27.2 Contingent liabilities and provisions

It is not anticipated that any material liabilities will arise from the suites brought against the Company or other contingent liabilities, except does that are already recognized in these financial statements.

27.3 Tax regulation in Armenia

The taxation system in Armenia is relatively new and is characterized by frequent changes in legislation, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the relevant authority.

No tax liabilities are created for reviled tax violations with more than three years of maturity. But in some cases the mentioned maturity period could be suspended.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation. However, the interpretations of the relevant authorities could differ and the effect could be significant if due authorized bodies are successful in enacting their interpretations.

28. Capital management

The Company manages its capital to ensure that it will be able to continue as going concerns.

The capital structure of the Company consists of debt (current and non-current liabilities) and equity.

Both at the reporting year and the end of the previous year, most of debt of the Company are loans and borrowings (Note 20).

The Company is not subject to any externally imposed capital requirements.