

Financial Statements and Independent Auditor's
Report

Yerevan Thermal Power Centre CJSC

December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the shareholder of Yerevan Thermal Power Centre CJSC

We have audited the accompanying financial statements of Yerevan Thermal Power Centre CJSC (the "Company"), which comprise the statement of financial position as of December 31, 2015, and the 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 information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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.

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

Basis for Qualified Opinion

As described in notes 1 and 4 the Company commenced exploitation of the new power plant in April 2010, thus suspending active exploitation of the existing power unit, the carrying amount of which was drams 13,994,297 thousand as of December 31, 2015 (December 31, 2014: drams 18,707,446 thousand). The latter has been put out of active exploitation and held as a reserve capacity. This fact together with other factors described in note 4 are an indication that the assets included in the former power plant may be impaired. The Company failed to determine the recoverable amount of the above assets as required by IAS 36 *Impairment of Assets*. We were unable to determine the possible effect of the above departure.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in the preceding paragraph, the financial statements give a true and fair view of the financial position of Yerevan Thermal Power Centre CJSC as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The financial statements for the year ended December 31, 2014 were audited by another auditor. The latter expressed unqualified opinion on those financial statements on June 1, 2015.

June 29, 2016



Grant Thornton Audit SRL
Bucharest, Romania

Statement of financial position

In thousand drams			As of December 31, 2015	As of December 31, 2014 (restated)	As of January 1, 2014 (restated)
	Note				
Assets					
<i>Non-current assets</i>					
Property, plant and equipment	4		127,707,236	135,797,953	134,437,375
Intangible assets			2,088	2,520	4,816
Deferred income tax assets	5		2,351,005	382,987	-
Minimum income tax payment			-	-	239,772
Non-current financial assets	6		8,388,166	5,763,624	5,590,493
			<u>138,448,495</u>	<u>141,947,084</u>	<u>140,272,456</u>
<i>Current assets</i>					
Inventories	7		5,773,106	5,801,801	5,050,890
Trade and other receivables	8		24,658,613	14,531,947	8,766,870
Cash and bank balances	9		3,099,856	804,192	290,750
			<u>33,531,575</u>	<u>21,137,940</u>	<u>14,108,510</u>
Total assets			<u>171,980,070</u>	<u>163,085,024</u>	<u>154,380,966</u>
Equity and liabilities					
<i>Capital and reserves</i>	10				
Share capital			11,459,612	743,717	743,717
Revaluation reserve			11,687,193	15,703,534	19,725,712
Accumulated loss			<u>(12,478,499)</u>	<u>(11,123,076)</u>	<u>(12,741,693)</u>
			<u>10,668,306</u>	<u>5,324,175</u>	<u>7,727,736</u>
<i>Non-current liabilities</i>					
Loans and borrowings	11		99,299,676	103,934,804	120,364,884
Grants related to assets	12		38,174	39,181	40,187
Deferred income tax liabilities	5		-	-	1,475,499
			<u>99,337,850</u>	<u>103,973,985</u>	<u>121,880,570</u>
<i>Current liabilities</i>					
Loans and borrowings	11		13,919,624	23,582,258	3,522,683
Grants related to income	13		435,315	439,746	453,247
Trade and other payables	14		46,941,367	29,657,426	20,796,730
Current income tax liabilities			<u>677,608</u>	<u>107,434</u>	-
			<u>61,973,914</u>	<u>53,786,864</u>	<u>24,772,660</u>
Total equity and liabilities			<u>171,980,070</u>	<u>163,085,024</u>	<u>154,380,966</u>

The financial statements were approved on June 29, 2016 by:

Hovakim Hovhannisyan
General Director

Garri Akhoyan
Deputy Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 39.



Statement of profit or loss and other comprehensive income

In thousand drams

	Note	Year ended December 31, 2015	Year ended December 31, 2014 (restated)
Revenue	15	68,610,206	64,409,969
Cost of sales	16	(61,907,263)	(60,445,630)
Gross profit		6,702,943	3,964,339
Other income		328,362	366,017
Distribution and marketing expenses		(14,142)	(19,092)
Administrative expenses	17	(601,500)	(808,016)
Other expenses	18	(7,902,625)	(6,009,097)
Results from operating activities		(1,486,962)	(2,505,849)
Finance income	19	561,589	521,840
Finance costs	19	(1,608,146)	(1,535,994)
Impairment of financial assets	6	(3,160,116)	(2,893,583)
Foreign currency exchange gain/(loss), net	20	(682,082)	2,511,565
Loss before income tax		(6,375,717)	(3,902,021)
Income tax recovery	21	1,003,953	1,498,460
Loss for the year		(5,371,764)	(2,403,561)
Other comprehensive income		-	-
Total comprehensive loss for the year		(5,371,764)	(2,403,561)

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 7 to 39.

Statement of changes in equity

In thousand drams	Share capital	Revaluation reserve	Accumulated loss	Total
as of January 1, 2014	743,717	25,139,445	(430,671)	25,452,491
Adjustment of prior period errors	-	(5,413,733)	(12,311,022)	(17,724,755)
Restated balance (refer to note 29)	743,717	19,725,712	(12,741,693)	7,727,736
Loss for the year	-	-	(2,403,561)	(2,403,561)
Total comprehensive loss for the year	-	-	(2,403,561)	(2,403,561)
Utilization of revaluation reserve	-	(4,022,178)	4,022,178	-
as of December 31, 2014 (restated)	743,717	15,703,534	(11,123,076)	5,324,175
Loss for the year	-	-	(5,371,764)	(5,371,764)
Total comprehensive loss for the year	-	-	(5,371,764)	(5,371,764)
Issue of share capital	10,715,895	-	-	10,715,895
Transactions with owners	10,715,895	-	-	10,715,895
Utilization of revaluation reserve	-	(4,016,341)	4,016,341	-
as of December 31, 2015	11,459,612	11,687,193	(12,478,499)	10,668,306

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 39.

Statement of cash flows

In thousand drams	Year ended December 31, 2015	Year ended December 31, 2014 (restated)
Cash flows from operating activities		
Cash received from customers	48,593,832	29,662,241
Cash paid to suppliers	(29,200,422)	(23,650,868)
Cash paid to employees	(726,334)	(791,280)
Taxes and duties paid	(4,652,816)	(1,865,183)
Income tax paid	(458,698)	(187,000)
<i>Net cash from operating activities</i>	<u>13,555,562</u>	<u>3,167,910</u>
Cash flows from investing activities		
Provision of borrowings	(1,013,990)	(5,400,592)
Repayment of provided borrowings	-	3,584,600
<i>Net cash used in investing activities</i>	<u>(1,013,990)</u>	<u>(1,815,992)</u>
Cash flows from financing activities		
Proceeds from loans and borrowings	10,270,945	5,341,876
Repayment of loans and borrowings	(13,824,904)	(5,359,471)
Interest paid	(6,607,283)	(710,132)
<i>Net cash used in financing activities</i>	<u>(10,161,242)</u>	<u>(727,727)</u>
Net increase in cash and bank balances	2,380,330	624,191
Effect on cash from conversions	(76,786)	(75,139)
Foreign exchange effect on cash	(7,880)	(35,610)
Cash and bank balances at the beginning of the year	<u>804,192</u>	<u>290,750</u>
Cash and bank balances at the end of the year	<u>3,099,856</u>	<u>804,192</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 7 to 39.

Notes to the financial statements

1 Nature of operations and general information

“Yerevan TPC” enterprise was established in 1963. In 1997 “Yerevan Thermal Power Centre” state closed joint stock company (the “Company”) was founded.

The Company's main activities include:

- production and sale of electrical and thermal energy;
- import and export of natural gas and electricity.

The Company's activities, including tariff policy are regulated by the Public Services Regulatory Commission of the Republic of Armenia.

Design works of Yerevan Thermal Power Centre began in 1959 by “Teploelectroproject” Institute of Soviet Union. As a site for construction of the plant it was chosen the southern industrial area of Yerevan, which is one of the most power-consuming industrial centres of Armenia. Construction of Yerevan Thermal Power Centre began in 1961. First one of the seven turbine installations of Yerevan TPP with 50MW capacity was commissioned in 1963, while the last one in 1967.

Being commissioned more than 40 years ago the units and auxiliary equipment of the power plant have undergone a regular tear and wear and became obsolescent by exhausting their normative operating resource, which naturally resulted in significant dropping of the operation reliability and the efficiency of generation of the electrical and heat energy by the power plant.

Ministry of Energy and Natural Resources of the Republic of Armenia and the Company commenced the reconstruction program of Yerevan TPC by constructing a new state-of-the-art combined cycle power unit with natural gas firing. The loan agreement on implementation of “Yerevan Combined Cycle Co-generation Power Plant Project” was signed on March 29, 2005 between the Government of the Republic of Armenia (RA) and Japan International Cooperation Agency (JICA)). Based on the said agreement the JICA provided loan to the Government of the RA with preferential terms by extending 26,409 million Japanese Yens. The agreement was ratified by the National Assembly of the RA on July 27, 2005.

Construction of the new plant started in 2006 and was completed in 2010, the new plant has been put in use in April 2010.

Owing to the realization of new technology the efficiency of the power plant was increased to almost 70%, levels of emissions were reduced significantly, as well as consumption quantity of drinking quality water by more than 3 times.

The average number of employees of the Company during 2015 was 380 employees (2014: 462 employees).

The Company is registered at 0053, 3 Arin Berdi Str., Impasse 3, Yerevan, Republic of Armenia.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are stated at present discounted value of future cash flows and certain property, plant and equipment that are stated at their revalued amounts.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram (“dram”), which is the Company’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in Armenian drams (unless otherwise stated), since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 22 to the financial statements.

2.5 Restatement of financial statements

The Company applies changes in accounting policies and correction of prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: restating the comparative amounts for the prior period(s) presented in which the error occurred; or 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. The financial statements including the comparative information for prior periods are presented as if the correction had been made in the period in which such a necessity arose. Therefore, the amount of the correction that relates to each period presented is included in the financial statements of that period. The amount of the correction in the comparative financial statements of prior periods is made in the earliest period presented.

2.6 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2015.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2015, they did not have a material impact on the annual financial statements of the Company.

New and revised standards and interpretations that are effective for annual periods beginning on or after January 1, 2015

Annual Improvements 2010-2012

The Annual Improvements 2010-2012 made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarized below:

IFRS 13 Fair Value Measurement

Short-term receivables and payables:

- amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment

Revaluation method-proportionate restatement of accumulated depreciation:

- addresses the diversity in practice in calculating the accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method;
- clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount;
- clarifies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

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

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

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

IFRS 9 *Financial Instruments* (2014)

The IASB released IFRS 9 *Financial Instruments* (2014), representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

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

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Company's management have not yet assessed the impact of IFRS 15 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 January 1, 2019. Early application is permitted provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Company's management have not yet assessed the impact of IFRS 16 on these financial statements.

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014

The Annual Improvements 2012-2014 made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarized below:

IFRS 7 Financial Instruments: Disclosures

The amendments provide additional guidance to help entities identify the circumstances under which a servicing contract is considered to be “continuing involvement” for the purposes of applying the disclosure requirements in paragraphs 42E-42H of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to non-performance of that asset.

The Annual Improvements 2012-2014 noted above are effective for annual periods beginning on or after January 1, 2016. Management does not anticipate a material impact on the Company’s financial statements from these Amendments.

3 Significant accounting policies

3.1 Foreign currencies

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, 528.69 drams for 1 euro and 4.01drams for 1 Japanese Yen as of December 31, 2015 (December 31, 2014: 474.97 drams for 1 US dollar, 577.47 drams for 1 euro and 3.97 drams for 1 Japanese Yen). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such property, plant and equipment is recognized in other comprehensive income (except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged) and is shown as revaluation reserve in shareholder's equity. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

The revaluation surplus is transferred to the accumulated profit as the asset is used by the Company. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profit.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy.

The gain or loss arising on the disposal or retirement of an item of property, plant 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, plant 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 profit or loss as incurred.

Depreciation is charged to profit or loss 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:

Buildings and constructions	- 20-40 years
Transmission devices	- 5-40 years
Machinery and equipment	- 5-40 years
Vehicles	- 5 years
Fixture and fittings	- 5-40 years
Other	- 2-10 years.

3.3 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to profit or loss on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years for software.

3.4 Inventories

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

3.5 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

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

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the

way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income. Refer to note 23 for a summary of the Company's financial assets by category.

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

i. Loans and receivables

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

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

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

Cash and bank balances

The Company's cash and bank balances comprise cash in hand, bank accounts and cash in transit.

ii. Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, with subsequent changes in value recognized in other comprehensive income. Gains and losses arising from financial instruments classified as available-for-sale are only recognized in profit or loss when they are sold or when the investment is impaired. In the case of impairment, any loss previously recognized in other comprehensive income is transferred to profit or loss. Losses recognized in profit or loss on equity instruments are not reversed through profit or loss but are charged to equity. Losses recognized in prior period profit or loss resulting from the impairment of debt securities are reversed through profit or loss, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include loans and borrowings and trade and other payables. A summary of the Company's financial liabilities by category is given in note 23.

i. Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss 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, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

ii. Trade and other payables

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

3.6 Impairment

Impairment of property, plant and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Impairment of financial assets

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

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

3.7 Equity

Equity instruments issued by the Company are recorded at the proceeds received.

Share capital represents the nominal value of shares that have been issued.

Revaluation reserve comprises gains and losses from the revaluation of property, plant and equipment.

Dividends are recognized as a liability in the period in which they are declared.

3.8 Grants

Grants are not recognized until there is reasonable assurance that the Company 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 profit or loss 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 Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

3.9 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10 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.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.11 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company.

Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue of the Company derives from sale of electricity, natural gas and provision of capacity, as well as exchange of electricity and gas.

Revenue from sale of electricity and gas is recognized on monthly basis based on the actual electricity transferred.

Revenue from provision of capacity is earned for the idle time of the plant and is recognized on monthly basis based on idle hours.

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.

Rental income

Rental income is recognized on a straight-line basis over the term of the relevant lease.

Exchange of goods

When goods are exchanged or swapped for goods which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue.

When goods are sold in exchange for dissimilar goods, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods received cannot be measured reliably, the revenue is measured at the fair value of the goods given up, adjusted by the amount of any cash or cash equivalents transferred.

4 Property, plant and equipment

In thousand drams	Land, buildings and constructions	Transmission devices	Machinery and equipment	Vehicles	Fixture, fittings and other	Total
<i>Cost or valuation</i>						
as of January 1, 2014 (restated)	28,228,903	8,027,868	126,564,123	278,728	1,696,443	164,796,065
Additions	293,724	41,825	8,702,413	232,787	27,183	9,297,932
Disposals	(702)	-	-	(46)	-	(748)
Internal movement as of December 31, 2014 (restated)	1,916	-	-	(162)	(1,754)	-
	28,523,841	8,069,693	135,266,536	511,307	1,721,872	174,093,249
Additions	12,104	93,587	46,221	14,998	15,273	182,183
Disposals	703	(1,367)	(137,181)	(56,612)	(13,934)	(208,391)
Internal movement	17,664	12	(349)	4,259	(21,586)	-
as of December 31, 2015	28,554,312	8,161,925	135,175,227	473,952	1,701,625	174,067,041
<i>Accumulated depreciation and impairment</i>						
as of January 1, 2014 (restated)	1,612,474	1,405,290	27,110,807	57,876	172,243	30,358,690
Charge for the year	688,353	994,744	6,143,600	34,933	78,300	7,939,930
Eliminated on disposal as of December 31, 2014 (restated)	-	-	(1,675)	-	(1,649)	(3,324)
	2,300,827	2,400,034	33,252,732	92,809	248,894	38,295,296
Charge for the year	707,058	1,014,056	6,297,470	84,900	76,256	8,179,740
Eliminated on disposal	-	(943)	(101,600)	(2,831)	(9,857)	(115,231)
Internal movement	10,612	-	(100)	-	(10,512)	-
as of December 31, 2015	3,018,497	3,413,147	39,448,502	174,878	304,781	46,359,805
<i>Carrying amount</i>						
as of December 31, 2014	26,223,014	5,669,659	102,013,804	418,498	1,472,978	135,797,953
as of December 31, 2015	25,535,815	4,748,778	95,726,725	299,074	1,396,844	127,707,236

Included in the property, plant and equipment is the old power plant at the carrying amount of drams 13,994,297 thousand as of December 31, 2015 (December 31, 2014 drams 18,707,446 thousand). Exploitation of this power plant has been suspended since exploitation of the new plant, and the latter has been held as a reserve capacity.

Being commissioned more than 40 years ago the units and auxiliary equipment of the power plant have undergone a regular tear and wear and became obsolescent by exhausting their normative operating resource, which naturally resulted in significant dropping of the operation reliability and the efficiency of generation of the electrical and heat energy by the power plant.

As described in note 1, with the aim to enhance the electric power supply capacity of the Republic of Armenia in 2005 the Government of the Republic of Armenia has initiated a project for construction of a high-performance, high-efficiency, fully automatic combined cycle co-generation power unit with 205MW nominal capacity and 103GCal/h heat export capacity. Construction works started in early 2006 and were completed in April 2010, when the power unit has been put in use.

The carrying amount of the unit as of December 31, 2015 is drams 107,212,192 thousand (December 31, 2014: drams 110,224,274 thousand).

Property, plant and equipment of the Company at the carrying amount of drams 18,503,664 thousand have been pledged as a security for loans and borrowings as of December 31, 2015 (December 31, 2014: drams 22,973,588 thousand).

The Company's property, plant and equipment were last revalued as of December 21, 2012 by independent valuers. Valuations were made on the basis of recent market transactions on arm length terms. The revaluation surplus net of applicable deferred income taxes was credited to revaluation reserve in shareholder's equity.

If property, plant and equipment were stated at historical cost, their carrying amounts as of the reporting date would be drams 113,098,244 thousand (December 31, 2014: drams 116,168,536 thousand).

Depreciation expense has been charged as follows:

In thousand drams	Year ended December 31, 2015	Year ended December 31, 2014
Cost of sales	3,439,128	3,251,277
Administrative expenses	72,664	35,994
Other expenses	4,667,948	4,652,659
	<u>8,179,740</u>	<u>7,939,930</u>

5 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousand drams	2015	2014 (restated)
Balance at the beginning of year	382,987	(1,475,499)
Credited to profit or loss (refer to note 21)	1,968,018	1,858,486
Balance at the end of year	<u>2,351,005</u>	<u>382,987</u>

Deferred income taxes for the year ended December 31, 2015 can be summarized as follows:

In thousand drams	January 1, 2015	Recognized in profit or loss	December 31, 2015
<i>Deferred income tax assets</i>			
Non-current financial assets	3,271,404	942,171	4,213,575
Trade and other receivables	1,017,924	15,689	1,033,613
Trade and other payables	6,249	(1,427)	4,822
	<u>4,295,577</u>	<u>956,433</u>	<u>5,252,010</u>
<i>Deferred income tax liabilities</i>			
Property, plant and equipment	3,912,590	(1,011,585)	2,901,005
	<u>3,912,590</u>	<u>(1,011,585)</u>	<u>2,901,005</u>
Net position – deferred income tax assets	<u>382,987</u>	<u>1,968,018</u>	<u>2,351,005</u>

Deferred income taxes for the year ended December 31, 2014 can be summarized as follows:

In thousand drams	January 1, 2014	Recognized in profit or loss	December 31, 2014
<i>Deferred income tax assets</i>			
Non-current financial assets	2,424,842	846,562	3,271,404
Trade and other receivables	1,017,924	-	1,017,924
Trade and other payables	7,370	(1,121)	6,249
	<u>3,450,136</u>	<u>845,441</u>	<u>4,295,577</u>
<i>Deferred income tax liabilities</i>			
Property, plant and equipment	4,925,635	(1,013,045)	3,912,590
	<u>4,925,635</u>	<u>(1,013,045)</u>	<u>3,912,590</u>
Net position – deferred income tax assets/(liabilities)	<u>(1,475,499)</u>	<u>1,858,486</u>	<u>382,987</u>

Analyzed as:

	2015	2014
To be recovered after more than 12 months	3,357,768	1,389,782
To be redeemed within 12 months	(1,006,763)	(1,006,795)

6 Non-current financial assets

In thousand drams			
2015	Gross amount	Impairment allowance	Carrying amount
Investments in securities	721,400	(721,400)	-
Borrowings provided	25,457,881	(17,378,063)	8,079,818
Long-term receivables	386,792	(78,444)	308,348
	<u>26,566,073</u>	<u>(18,177,907)</u>	<u>8,388,166</u>

In thousand drams

2014	Gross amount	Impairment allowance	Carrying amount (restated)
Investments in securities	721,400	(721,400)	-
Borrowings provided	19,730,123	(14,296,391)	5,433,732
Long-term receivables	329,892	-	329,892
	<u>20,781,415</u>	<u>(15,017,791)</u>	<u>5,763,624</u>

Investments in securities

Investments in securities represent the cost of shares in Nairit Plant CJSC of 1.9%.

Borrowings provided

Borrowings provided include amounts lent to Nairit Plant CJSC and Vanadzor Khimprom CJSC according to resolutions of the Ministry of Energy and Natural Recourses. The borrowings accrue annual interest of 12%. Gross amounts include principal and accumulated interest. According to management recoverability of these assets is uncertain due to financial difficulties of the borrowers, hence allowance for impairment has been created. The borrowings are contractually repayable within 12 months, however those has been classified as non-current due to the above uncertainties.

Movement of the allowance is presented below:

In thousand drams

	2015	2014
Balance at the beginning of year	15,017,791	12,124,208
Increase in the allowance during the year	3,160,116	2,893,583
Balance at the end of year	<u>18,177,907</u>	<u>15,017,791</u>

7 Inventories

In thousand drams

	As of December 31, 2015	As of December 31, 2014
Spare parts	4,601,188	4,640,543
Materials	967,990	971,669
Construction materials	86,371	87,275
Other	117,557	102,314
	<u>5,773,106</u>	<u>5,801,801</u>

8 Trade and other receivables

In thousand drams

	As of December 31, 2015	As of December 31, 2014 (restated)
Trade receivables	22,509,409	14,816,076
Allowances for doubtful trade receivables	(5,089,620)	(5,089,620)
Net trade receivables	<u>17,419,789</u>	<u>9,726,456</u>
Advances and prepayments	218,303	728,516
Receivables from the State budget	7,017,221	4,076,164
Other	3,300	811
	<u>24,658,613</u>	<u>14,531,947</u>

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The average credit period on sales is 96 days (2014: 55 days). No interest is charged on the trade receivables. The Company has provided fully for all receivables over 365 days because historical experience is that receivables that are past due beyond 365 days are generally not recoverable.

Receivables from the State budget include input VAT of drams 6,993,919 thousand (December 31, 2014: drams 4,065,519 thousand), which will become eligible for offset with output VAT when respective invoices are paid by the Company.

As of December 31, 2015 individual items of trade receivables at the gross carrying amount of drams 5,089,620 thousand (December 31, 2014: drams 5,089,620 thousand) were impaired and provided for. The amount of provision was drams 5,089,620 thousand (December 31, 2014: drams 5,089,620 thousand). The individually impaired trade receivables relate to receivables from Nairit Plant CJSC for sale of thermal power and Asrtsakhenergo CJSC for sale of electric power. These receivables originated more than 1 year ago.

The carrying amount of receivables whose terms have been renegotiated that would otherwise be past due or impaired is drams 12,242,589 thousand (December 31, 2014: nil). This relates to receivables from Electric Networks of Armenia CJSC.

Movement of the allowance for doubtful receivables is presented below:

In thousand drams

	2015	2014
Balance at the beginning of year	5,089,620	5,089,620
Increase in the allowance during the year	-	-
Balance at the end of year	5,089,620	5,089,620

In determining the recoverability of a trade receivable the Company considers any change in the repayment pattern from the debtor from the date credit was initially granted up to the reporting date. The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Refer to note 24 for the currencies in which the trade and other receivables are denominated.

9 Cash and bank balances

In thousand drams

	As of December 31, 2015	As of December 31, 2014
Cash in hand	65	1,133
Bank accounts	3,099,791	803,059
	3,099,856	804,192

Refer to note 24 for the currencies in which the cash and bank balances are denominated.

10 Capital and reserves

10.1 Share capital

Number of shares unless otherwise stated	Ordinary shares	Ordinary shares
	2015	2014
Authorized shares		
Number of ordinary shares of drams 5,300 each	140,324	140,324
Issued and fully paid during the year	2,021,867	-
Number of ordinary shares of drams 5,300 each	2,162,191	140,324

The Company has one class of ordinary shares, which carry no right to fixed income.

During the year the share capital of the Company has been increased by drams 10,715,895 thousand by issuing additional shares.

10.2 Reserve capital

In accordance with the law "On joint stock companies" and the Company's charter the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements.

According to legal requirements the Company is required to create a minimum non-distributable reserve from its retained earnings for an amount equal to 15% of its share capital for the purpose of covering future losses. According to the Company's charter the non-distributable reserve equals to 15% of the share capital.

As at December 31, 2015 the Company's non-distributable reserve amounted to drams 1,718,942 thousand (December 31, 2014: drams 111,557 thousand).

10.3 Revaluation reserve

The revaluation reserve arises on the revaluation of property, plant and equipment. Revaluation reserve is transferred to accumulated profit as the asset is used by the Company. The amount of the surplus transferred is the difference between depreciation based on the revalued amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is also transferred to accumulated profit. Revaluation reserve is presented net of related income tax.

11 Loans and borrowings

In thousand drams	Current		Non-current	
	As of December 31, 2015	As of December 31, 2014	As of December 31, 2015	As of December 31, 2014
Secured loan from the Ministry of Finance	3,471,113	7,977,941	99,299,676	101,564,848
Secured bank loans	5,704,748	5,046,143	-	2,369,956
Other borrowings	4,743,763	10,558,174	-	-
	13,919,624	23,582,258	99,299,676	103,934,804

Bank loans bear a weighted average interest rate of 11.7 % annually (2014: 11% annually).

As described in note 1, the Ministry of Energy and Natural Resources of the Republic of Armenia and the Company commenced the reconstruction program by constructing a new state-of-the-art combined cycle power unit with natural gas firing. For this aim, after long negotiations and in the result of submission of solid reasoning the loan agreement on implementation of “Yerevan Combined Cycle Co-generation Power Plant Project” was signed on March 29, 2005 between the Government of the Republic of Armenia and Japan International Cooperation Agency (JICA). Based on the said agreement JICA provided an Official Development Assistance (ODA) loan to the Government of the Republic of Armenia with preferential terms: annual interest rate of 0.75% and 40 years of repayment period (including grace period of 10 years) by extending 24,409,000 thousand Japanese Yens. The agreement was ratified by the National Assembly on July 27, 2005. A sub loan agreement was concluded between the Ministry of Finance and the Company in March 2005 with the same terms.

Other borrowings include interest free borrowing from Vorotan HPPS at the amount of drams 4,536,621 thousand (December 31, 2014: drams 9,075,610 thousand), which have been transferred to the Company based on the assignment agreement.

The fair values of loans and borrowings equal their carrying amount, as the impact of discounting is not significant.

Loans and borrowings are secured by property, plant and equipment (refer to note 4).

Refer to note 24 for more information about the Company’s exposure to interest rate and foreign currency risks.

12 Grants related to assets

In thousand drams

	2015	2014
Balance at the beginning of year	39,181	40,187
Credited to profit or loss	(1,007)	(1,006)
Balance at the end of year	38,174	39,181

13 Grants related to income

In thousand drams

	2015	2014
Balance at the beginning of year	439,746	453,247
Received during the year	-	2,116
Credited to profit or loss	(4,431)	(15,617)
Balance at the end of year	435,315	439,746

14 Trade and other payables

In thousand drams	As of December 31, 2015	As of December 31, 2014 (restated)
Trade payables	42,219,177	25,511,783
Advances from customers	3,828,774	3,881,445
Taxes and duties payable	201,260	79,447
Payables to employees	24,405	31,574
Provision for possible additional taxes	518,527	-
Other	149,224	153,177
	<u>46,941,367</u>	<u>29,657,426</u>

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

Trade payables include a payable of drams 33,111,147 thousand (December 31, 2014: drams 18,991,055 thousand) for natural gas to Gazprom Armenia CJSC.

Refer to note 24 for more information about the Company's exposure to foreign currency risk.

15 Revenue

In thousand drams	Year ended December 31, 2015	Year ended December 31, 2014
Sale of electricity	46,213,286	42,525,755
Provision of capacity	11,646,660	7,841,522
Sale of natural gas	10,750,260	14,042,692
	<u>68,610,206</u>	<u>64,409,969</u>

16 Cost of sales

In thousand drams	Year ended December 31, 2015	Year ended December 31, 2014
Cost of sold electricity	11,018,950	13,004,070
Cost of sold gas	9,587,863	13,764,500
Cost of gas and other materials used in production	33,233,615	26,136,125
Power and gas transmission services	3,975,055	3,546,572
Depreciation expenses	3,439,128	3,251,277
Employee remuneration	652,652	743,086
	<u>61,907,263</u>	<u>60,445,630</u>

20 Foreign currency exchange gain/(loss), net

In thousand drams	Year ended December 31, 2015	Year ended December 31, 2014
Loans and receivables	688,550	5,059,090
Financial liabilities measured at amortized cost	(1,370,632)	(2,547,525)
	<u>(682,082)</u>	<u>2,511,565</u>

21 Income tax recovery

In thousand drams	Year ended December 31, 2015	Year ended December 31, 2014 (restated)
Current tax	964,065	360,026
Deferred tax	(1,968,018)	(1,858,486)
	<u>(1,003,953)</u>	<u>(1,498,460)</u>

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2015	Effective tax rate (%)	Year ended December 31, 2014	Effective tax rate (%)
Loss before taxation (under IFRS)	<u>(6,375,717)</u>		<u>(3,902,021)</u>	
Tax calculated at a tax rate of 20% (2014: 20%)	(1,275,143)	20.00	(780,404)	20.00
(Non-taxable)/non-deductible items, net	<u>271,190</u>	<u>(4.25)</u>	<u>(718,056)</u>	<u>18.40</u>
Income tax recovery	<u>(1,003,953)</u>	<u>15.75</u>	<u>(1,498,460)</u>	<u>38.40</u>

22 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.

22.1 Critical accounting estimates

The Company 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, plant and equipment

Management has estimated useful lives of the property, plant and equipment based on its best estimates of the economic lives of the assets as well as its intentions to continue exploitation of the existing systems. Management believes that estimated useful lives of the property, plant and equipment are not materially different from economical lives of those assets. If actual useful lives of property, plant and equipment are different from estimations, financial statements may be materially different.

Impairment of trade receivables and financial assets

The Company regularly reviews its financial assets to assess impairment. As of December 31, 2015 the carrying amount of the Company's impaired receivables and other financial assets was nil and drams 8,388,166 thousand respectively (December 31, 2014: nil and drams 5,763,624 thousand). The Company uses judgment to estimate the amount of any impairment loss in cases where a customer or a borrower are in financial difficulties estimating the changes of future cash flows. If the actual recoverability of receivables and other financial assets varies from the estimated, the carrying amounts of those assets may be different.

23 Financial instruments

23.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.5.

23.2 Categories of financial instruments

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

Financial assets

In thousand drams	As of December 31, 2015	As of December 31, 2014
Loans and receivables:		
Non-current financial assets	8,388,166	5,763,624
Trade and other receivables	17,423,089	9,727,267
Cash and bank balances	3,099,856	804,192
	<u>28,911,111</u>	<u>16,295,083</u>

Financial liabilities

In thousand drams	As of December 31, 2015	As of December 31, 2014
Financial liabilities measured at amortized cost:		
Loans and borrowings	113,219,300	127,517,062
Trade and other payables	41,824,669	25,696,534
	<u>155,043,969</u>	<u>153,213,596</u>

24 Financial risk management

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

Foreign currency risk

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

Most of the Company's transactions are carried out in Armenian drams. Exposures to currency exchange rates arise from the Company's sales, which are denominated in US dollars, as well as loans and borrowings, which are primarily denominated in Japanese Yen, US dollars and Euro.

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

Item			
As of December 31, 2015	US dollar	Euro	JPY
<i>Financial assets</i>			
Trade and other receivables	1,459,024	-	-
Cash and bank balances	11	887	-
	<u>1,459,035</u>	<u>887</u>	<u>-</u>
<i>Financial liabilities</i>			
Loans and borrowings	<u>2,837,431</u>	<u>2,888,477</u>	<u>102,729,433</u>
	<u>2,837,431</u>	<u>2,888,477</u>	<u>102,729,433</u>
Net position	<u>(1,378,396)</u>	<u>(2,887,590)</u>	<u>(102,729,433)</u>
Item			
As of December 31, 2014	US dollar	Euro	JPY
<i>Financial assets</i>			
Trade and other receivables	314	-	-
Cash and bank balances	<u>12,892</u>	<u>2,406</u>	<u>14</u>
	<u>13,206</u>	<u>2,406</u>	<u>14</u>
<i>Financial liabilities</i>			
Loans and borrowings	1,681,394	5,714,509	109,542,789
Trade and other payables	<u>27,509</u>	<u>-</u>	<u>-</u>
	<u>1,708,903</u>	<u>5,714,509</u>	<u>109,542,789</u>
Net position	<u>(1,695,697)</u>	<u>(5,712,103)</u>	<u>(109,542,775)</u>

The following table details the Company's sensitivity to a 10% (2014: 10%) increase and decrease in dram against Japanese Yen, US dollar and Euro. 10% (2014: 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% (2014: 10%) change in foreign currency rates.

If Armenian dram had strengthened against Japanese Yen, US dollar and Euro by 10% (2014: 10%) then this would have had the following impact:

In thousand drams	US dollar impact		Euro impact		JPY impact	
	2015	2014	2015	2014	2015	2014
Profit or loss	137,840	169,570	288,759	571,210	10,272,943	10,954,278

Exposures to foreign exchange rates vary during the year depending on the balance of loans and borrowings. Nonetheless, the analysis above is considered to be representative of the Company'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 Company. The effect of this risk for the Company arises from different financial instruments, such as accounts receivable, borrowings provided, amounts due from financial institutions, etc. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of December 31, 2015	As of December 31, 2014
Financial assets at carrying amounts		
Non-current financial assets	8,388,166	5,763,624
Trade and other receivables	17,423,089	9,727,267
Bank balances	3,099,856	804,192
	<u>28,911,111</u>	<u>16,295,083</u>

The Company's trade receivables are mainly due from Electric Networks of Armenia CJSC. The credit risk for these receivables is considered acceptable. The Company has made provisions of drams 5,089,620 thousand as of December 31, 2015 (December 31, 2014: drams 5,089,620 thousand) for other overdue receivables.

Non-current financial assets represent borrowings provided to Vanadzor Khimprom CJSC. The company was declared insolvent in early 2016. Management anticipates to recover the amount of the borrowings when assets of the company will be sold at the liquidation process.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks.

c) Liquidity risk

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

The Company'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 Company'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 Company can be required to pay. The table includes both interest and principal cash flows.

2015	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate		0.72%	
Less than 6 months	46,361,291	4,701,423	51,062,714
6 months to 1 year	-	4,941,145	4,941,145
1-5 years	-	17,382,300	17,382,300
More than 5 years	-	81,657,810	81,657,810
	<u>46,361,291</u>	<u>108,682,678</u>	<u>155,043,969</u>

2014	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate		0.78%	
Less than 6 months	25,696,534	6,460,685	32,157,219
6 months to 1 year	971,000	7,444,430	8,415,430
1-5 years	8,104,610	20,356,249	28,460,859
More than 5 years	-	84,180,088	84,180,088
	<u>34,772,144</u>	<u>118,441,452</u>	<u>153,213,596</u>

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables. The Company's cash resources and trade receivables are significantly less than the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within 1.5 months.

25 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

25.1 Fair value measurement of financial instruments

Financial instruments measured at amortized cost for which the fair value is disclosed

In the statement of financial position fair values of financial assets and financial liabilities approximately equal their carrying amounts.

Fair value has been determined by discounting the relevant cash flows using market interest rates for similar instruments, with the most significant inputs being the discount rates. The estimated fair

value of the above financial assets and financial liabilities are categorized within level 3 of the fair value hierarchy.

25.2 Fair value measurement of non-financial assets

Property, plant and equipment of the Company are stated at revalued amount. The estimated fair values of the land, buildings and other capital assets are categorized within Level 2 for land and Level 3 for buildings and other assets, of the fair value hierarchy. The fair values of those assets are estimated based on appraisals performed by independent, professionally-qualified property valuers who hold necessary licenses. The significant inputs and assumptions are developed in close consultation with management. Further information is set out below.

Land (Level 2)

The appraisal was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and purpose of use.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is subjective judgment, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

Buildings and constructions (Level 3)

The fair values of the buildings and constructions are estimated using replacement approach.

Under replacement method the fair value is determined by reference to the total expenditures required to construct a similar asset, reduced by estimated depreciation, which includes physical depletion, economical and functional depreciation as of the date of the valuation.

Equipment and other assets (Level 3)

The majority of the Company's equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar equipment is not active in the Republic of Armenia and does not provide a sufficient number of sales of comparable equipment for using a market-based approach for determining fair value. Consequently the fair value of equipment was primarily determined using depreciated replacement cost.

26 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide adequate return to stakeholders.

The capital structure of the Company consists of equity comprising issued capital, reserves and retained earnings and debt, which includes loans and borrowings disclosed in note 11.

Management assesses the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination

levels of the Company's various classes of debt. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The amounts managed as capital by the Company for the reporting period are summarized as follows:

In thousand drams	As of December 31, 2015	As of December 31, 2014
Total equity	10,668,306	5,324,175
Less: cash and bank balances	(3,099,856)	(804,192)
Capital	7,568,450	4,519,983
Total equity	10,668,306	5,324,175
Borrowings	113,219,300	127,517,062
Overall financing	123,887,606	132,841,237
Capital to overall financing ratio	0.06	0.03

27 Contingencies

27.1 Business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

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

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

27.2 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance

coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Company's operations and financial position.

27.3 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.

27.4 Environmental matters

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

28 Related parties

The Government of the Republic of Armenia owns 100% of the Company's shares, hence all state owned enterprises are considered related to the Company. The Company's related parties include also key management.

28.1 Control relationships

The Company is controlled by the Government of the Republic of Armenia represented by the Ministry of Energy and Natural Recourses.

28.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand drams	Year ended December 31, 2015	Year ended December 31, 2014
Transactions		
<i>Shareholder</i>		
Accrual of interest expenses	771,803	779,352
Repayment of interest accrued	5,819,891	-
Repayment of principal	2,901,416	-
<i>Entities under common control</i>		
Provision of services	794	757
Provision of borrowings	5,095,400	5,337,592
Impairment of financial assets	3,160,116	2,893,583
Repayment of borrowings provided	-	3,374,000
Acquisition of services	1,388,046	1,154,986
Borrowings received	10,679,171	2,618,352

Repayment of borrowings received	5,877,346	761,000
Accrual of interest income	561,589	521,840
Accrual of interest expenses	99,242	48,342
<i>Key management</i>		
Salary and other benefits	6,374	6,360
In thousand drams		
Outstanding balances	As of December 31, 2015	As of December 31, 2014
<i>Shareholder</i>		
Loans and borrowings	102,729,433	109,542,789
<i>Entities under common control</i>		
Non-current financial assets	8,388,166	5,763,624
Trade and other receivables	3,975	-
Loans and borrowings	4,693,521	10,553,962
Trade and other payables	4,713,596	3,634,031

29 Restatement of comparative financial statements

During 2015 the Company decided to restate the financial statements of prior year according to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* due to discovery of errors related to previous years. As a result of the above, the Company's management decided to make relevant adjustments in these financial statements, which were applied retrospectively based on the policy adopted by the Company (refer to note 2.5).

The adjustments made mainly related to the following:

- the Company failed to record utilization of revaluation reserve for prior years;
- no allowance for doubtful debts and overdue borrowings provided was made in prior years;
- the Company's prior year records included certain items of property, plant and equipment, mainly capitalized costs on certain project, which started many years ago and were left incomplete; it was not probable that those costs could be recovered, no impairment was recognized for those assets in prior years;
- no deferred taxes were recorded in the Company's accounts related to revaluation of property, plant and equipment.
- during the year the Company has discovered that the balance of one of the suppliers was incorrectly recorded in the books; the error was coming from prior years.

The impact of adjustments is as follows:

In thousand drams

	As of December 31, 2014		
	According to previous statement	Adjustment	Restated balance
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	138,668,225	(2,870,272)	135,797,953
Intangible assets	2,520	-	2,520
Deferred income tax assets	-	382,987	382,987
Non-current financial assets	21,790,749	(16,027,125)	5,763,624
	<u>160,461,494</u>		<u>141,947,084</u>
<i>Current assets</i>			
Inventories	5,801,801	-	5,801,801
Trade and other receivables	19,951,458	(5,419,511)	14,531,947
Cash and bank balances	804,192	-	804,192
	<u>26,557,451</u>		<u>21,137,940</u>
Total assets	<u>187,018,945</u>		<u>163,085,024</u>
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	743,717	-	743,717
Revaluation reserve	24,339,232	(8,635,698)	15,703,534
Accumulated profit/(loss)	204,665	(11,327,741)	(11,123,076)
	<u>25,287,614</u>		<u>5,324,175</u>
<i>Non-current liabilities</i>			
Loans and borrowings	122,112,688	(18,177,884)	103,934,804
Grants related to assets	39,181	-	39,181
Deferred income tax liabilities	5,333,483	(5,333,483)	-
	<u>127,485,352</u>		<u>103,973,985</u>
<i>Current liabilities</i>			
Loans and borrowings	5,384,247	18,198,011	23,582,258
Grants related to income	439,746	-	439,746
Trade and other payables	28,421,986	1,235,440	29,657,426
Current income tax liabilities	-	107,434	107,434
	<u>34,245,979</u>		<u>53,786,864</u>
Total equity and liabilities	<u>187,018,945</u>		<u>163,085,024</u>

In thousand drams

	As of January 1, 2014		
	According to previous statement	Adjustment	Restated balance
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	137,670,836	(3,233,461)	134,437,375
Intangible assets	4,816	-	4,816
Minimum income tax payment	239,772	-	239,772
Non-current financial assets	17,714,701	(12,124,208)	5,590,493
	<u>155,630,125</u>		<u>140,272,456</u>
<i>Current assets</i>			
Inventories	5,050,890	-	5,050,890
Trade and other receivables	13,856,490	(5,089,620)	8,766,870
Cash and bank balances	290,750	-	290,750
	<u>19,198,130</u>		<u>14,108,510</u>
Total assets	<u><u>174,828,255</u></u>		<u><u>154,380,966</u></u>
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	743,717	-	743,717
Revaluation reserve	25,139,445	(5,413,733)	19,725,712
Accumulated loss	(430,671)	(12,311,022)	(12,741,693)
	<u>25,452,491</u>		<u>7,727,736</u>
<i>Non-current liabilities</i>			
Loans and borrowings	120,393,396	(28,512)	120,364,884
Grants related to assets	40,187	-	40,187
Deferred income tax liabilities	5,540,906	(4,065,407)	1,475,499
	<u>125,974,489</u>		<u>121,880,570</u>
<i>Current liabilities</i>			
Loans and borrowings	3,522,683	-	3,522,683
Grants related to income	453,247	-	453,247
Trade and other payables	19,425,345	1,371,385	20,796,730
	<u>23,401,275</u>		<u>24,772,660</u>
Total equity and liabilities	<u><u>174,828,255</u></u>		<u><u>154,380,966</u></u>

The details of adjustments on retained earnings are described below:

In thousand drams

	As of December 31, 2014	As of January 1, 2014
Impairment of investments	(721,400)	(721,400)
Impairment of borrowings provided	(15,635,617)	(11,402,808)
Allowance for trade receivables	(5,089,620)	(5,089,620)
Adjustment to the cost of capital assets	(2,003,125)	(2,003,125)
Impairment of capital assets	(1,558,463)	(1,558,463)
Depreciation of capital assets	691,316	328,127
Adjustment to deferred taxes	5,716,470	4,065,407
Adjustment to loans and borrowings	(20,127)	-
Adjustment to the balance of payable	(1,342,873)	(1,342,873)
Utilization of revaluation reserve and recording of related deferred taxes	8,635,698	5,413,733
	<u>(11,327,741)</u>	<u>(12,311,022)</u>

