YEREVAN THERMAL POWER CENTRE CJSC

FINANCIAL STATEMENTS AND

INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2016

YEREVAN
June 2017

Contents

The board

Hovhannes Burmanyan	Chairman of the Board, Ministry of Energy Infrastructures and Natural Resources of the Republic of Armenia, head of legal department
Hayk Khachatryan	Deputy of the Minister of Energy Infrastructures and Natural Resources of the Republic of Armenia
Rubik Davtyan	Advisor to Head of Budget Planning Financial Planning Department of the Ministry of Finance of the Republic of Armenia
Armen Meliq-Israyelyan	Head of Department of Shares Management of the Department of State Property Management by the Government of the RA
Artak Albertyan	Head of Division of Financial Planning of Current Budget Expenditures on Energy and in other economic spheres of the department of Financial Planning of Budget Expenditures of RA Ministry of Finance
Stepan Petrosyan	Corresponding Member of the National Academy of Sciences of RA, Doctor of Physical and Mathematical Sciences
Natalya Sarjanyan	Head of the Department for Media and Public Relations of Electric Networks of Armenia" CJSC
Sasun Khachatryan	General Director of "Yerevan Thermal Power Centre" CJSC

INDEPENDENT AUDITORS' REPORT

To the shareholder of "Yerevan Thermal Power Centre" CJSC

Report on the Audit of Financial Statements

Qualified Opinion

We have audited the financial statements of "Yerevan Thermal Power Centre" CJSC (the Company), which comprise the statement of financial position as at 31 December 2016, and the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material resect, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

1. As described at Notes 1 and 4 of these financial statements, the Company commenced exploitation of the new power plant since year 2010, and the old power plant was suspended from the active exploitation and held as a reserve capacity. This fact together with other factors described in Note 4 are an indication that the old power plant with carrying value of 12,570,460 thousand drams may be impaired. However, the Company did not assess the recoverable amount of the asset as required by the ISA 36, *Impairment of Assets*. We were unable to determine the possible effect of the impairment on the financial statements.

2. As at 31.12.2016 the financial position of the Company includes non current financial assets with carrying value of 8,362,176 thousand drams, which have impairment indication. However, the Company did not assess the impairment of the assets as required by the ISA 39, *Financial Instruments: Recognition and Measurement*. We were unable to determine the possible effect of the impairment on the financial statements.

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

ՀՀ; ք.Երևան 0037, Ա. Տիգրանյան 38/55; Հեռ.՝ (+37410) 20 11 51; www. sosaudit.am; էլ-փոստ՝ info@sosaudit.am

38/55 A. Tigranyan, 0037 Yerevan, RA; Tel.: (+37410) 20 11 51; www. sosaudit.am; E-mail: info@sosaudit.am

Other Matter – Scope of the Audit

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor, who expresses a *Qualified Opinion* on 29 June 2016, due to non assessment of impairment on power plant suspended from active exploitation. This factor is still applicable for the audit of reporting year financial statements, and was included in *Basis for Qualified Opinion* section of our report.

Responsibilities of the Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

ՀՀ; ք.Երևան 0037, Ա. Տիգրանյան 38/55; Հեռ.՝ (+37410) 20 11 51; www. sosaudit.am; Էլ-փոստ՝ info@sosaudit.am

38/55 A. Tigranyan, 0037 Yerevan, RA; Tel.: (+37410) 20 11 51; www. sosaudit.am; E-mail: info@sosaudit.am

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

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

Report on other legal requirements

In accordance with item C.2.a.(vi) of Schedule 2 of Loan Agreement IBRD Loan Number 8615-AM signed on 12 May 2016 between the the Republic of Armenia (RA) and International Bank for Reconstruction and Development (IBRD) and in accordance with item 4.14 Sub loan agreement signed on 14 June 2016 between the Ministry of Finance of RA and the Company, the Company is obligated not to incur any expenditure, indebtedness, or any liability or provide loans and grants, for purpose not related to the Company's core business of providing energy generation services.

In our opinion, the Company complied with the above term during the period from signing the Loan agreement on 12 May 2016 to the reporting date, 31 December 2016.

Manvel Ghazaryan
Director

Gnel Khachatryan, FCCA
Engagement partner

"SOS-Audit" LTD
27 June 2017

ՀՀ, ք.Երևան 0037, Ա. Տիգրանյան 38/55; Հեռ.՝ (+37410) 20 11 51; www. sosaudit.am; Էլ-փոստ՝ info@sosaudit.am

38/55 A. Tigranyan, 0037 Yerevan, RA; Tel.: (+37410) 20 11 51; www. sosaudit.am; E-mail: info@sosaudit.am

STATEMENT OF FINANCIAL POSITION

"Yerevan Thermal Power Centre" CJSC
As at 31 December 2016

In thousand drams

Assets	Note	As at 31.12.2016 AMD	As at 31.12.2015* AMD	As at 01.01.2015* AMD
Non-current assets				
Property, plant and equipment	4	123,079,995	127,707,236	135,797,953
Intangible assets		15,340	2,088	2,520
Deferred income tax assets	5	1,695,935	2,377,511	409,493
Non-current financial assets	6	8,386,514	8,388,166	5,763,624
		133,177,784	**138,475,001**	**141,973,590**
Current assets				
Inventories	7	5,540,199	5,773,106	5,801,801
Trade and other receivables	8	15,429,167	24,658,613	14,531,947
Cash and bank balances	9	1,461,395	3,099,856	804,192
		22,430,761	**33,531,575**	**21,137,940**
Total assets		**155,608,545**	**172,006,576**	**163,111,530**
LIABILITIES AND EQUITY				
Share capital	1.2	12,047,679	11,459,612	743,717
Revaluation reserve		10,775,254	11,687,193	15,703,534
Paid-in-capital		1,069,801	-	-
Accumulated loss		(13,466,851)	(12,630,934)	(11,275,511)
		10,425,883	**10,515,871**	**5,171,740**
Non-current liabilities				
Loans and borrowings	11	112,519,349	102,769,828	107,404,956
Grants related to assets	12	33,295	38,174	39,181
		112,552,644	**102,808,002**	**107,444,137**
Current liabilities				
Loans and borrowings	11	8,185,296	10,449,472	20,112,106
Grants related to income	13	417,871	435,315	439,746
Trade and other payables	14	24,026,851	46,941,367	29,657,426
Current income tax liabilities		-	856,549	286,375
		32,630,018	**58,682,703**	**50,495,653**
Total equity and liabilities		**155,608,545**	**172,006,576**	**163,111,530**

(*) Comparative amounts were restated (Note 3.21).

The financial statements were approved by the Management on 27 Junie 2017. The accompanying notes form an integral part of these financial statements.

Sasun Khachatryan
General Director

Garri Akhoyan
Head of Accounting Service

STATEMENT OF COMPREHENSIVE INCOME

"Yerevan Thermal Power Centre" CJSC
As at 31 December 2016

In thousand drams

	Note	Year ended 31.12.2016	Year ended 31.12.2015
Revenue	15	70,031,636	68,610,206
Cost of sales	16	(63,024,140)	(61,907,263)
Gross profit		***7,007,496***	***6,702,943***
Other income		459,376	328,362
Administrative expenses	17	(601,260)	(615,642)
Other expenses	18	(2,735,603)	(7,902,625)
Results from operating activities		***4,130,009***	***(1,486,962)***
Finance income	19	-	561,589
Finance costs	19	(1,343,880)	(1,608,146)
Impairment of financial assets		-	(3,160,116)
Foreign currency exchange gain/(loss), net	20	(3,852,409)	(682,082)
Loss before income tax		***(1,066,280)***	***(6,375,717)***
Income tax (expense)/recovery	21	(681,576)	1,003,953
Loss for the year		***(1,747,856)***	***(5,371,764)***
Other comprehensive income		-	-
Total comprehensive result for the year		***(1,747,856)***	***(5,371,764)***

Sasun Khachatryan
General Director

Garri Akhoyan
Head of Accounting Service

STATEMENT OF CHANGES IN EQUITY

"Yerevan Thermal Power Centre" CJSC
As at 31 December 2016

In thousand drams

	Share capital	Revalua-tion reserve	Accumulated Loss	Paid-in-capital	Total
Balance as of December 31, 2014	**743,717**	**15,703,534**	**(11,123,076)**	-	**5,324,175**
Adjustments*	-	-	(152,435)	-	(152,435)
Balance as of January 1, 2015	**743,717**	**15,703,534**	**(11,275,511)**	-	**5,171,740**
Total loss for the year	-	-	(5,371,764)	-	(5,371,764)
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**	**(12,630,934)**	-	**10,515,871**
Total loss for the year	-	-	(1,747,856)	-	(1,747,856)
Issue of shares	637,389	-	-	1,151,629	1,789,018
Transactions with owners	(49,322)	-	-	(81,828)	(131,150)
Utilization of re0valuation reserve	-	(911,939)	911,939	-	-
As of December 31, 2016	**12,047,679**	**10,775,254**	**(13,466,851)**	**1,069,801**	**10,425,883**

(*) Comparative amounts were restated (Note 3.21).

The financial statements were approved by the Management on 27 June 2017. The accompanying notes form an integral part of these financial statements.

Sasun Khachatryan
General Director

Garri Akhoyan
Head of Accounting Service

STATEMENT OF CASH FLOWS

"Yerevan Thermal Power Centre" CJSC
As at 31 December 2016

In thousand drams

	2016	2015
Cash flows from operating activities		
Cash received from customers	59,727,693	48,593,832
Cash paid to suppliers	(60,771,672)	(29,200,422)
Cash paid to employees	(474,483)	(726,334)
Taxes and duties paid	(1,323,247)	(4,652,816)
Income tax paid	(1,443,568)	(458,698)
Net cash flows from operating activities	***(4,285,277)***	***13,555,562***
Cash flows from investing activities		
Borrowings provided	-	(1,013,990)
Repayment of provided borrowings	1,702	-
Payments on PPE acquisition	(51,343)	-
Payments on intangible assets acquisition	(6,026)	-
Net cash flows from investing activities	***(55,667)***	***(1,013,990)***
Cash flows from financing activities		
Proceeds from loans and borrowings	21,653,110	10,270,945
Repayment of loans and borrowings	(19,341,038)	(13,824,904)
Interest paid	(1,329,931)	(6,607,283)
Proceeds from issue of shares	1,789,018	-
Net cash flows from financing activities	***2,771,159***	***(10,161,242)***
Total net cash flows	***(1,569,785)***	***2,380,330***
Effect on cash from conversions	(84,644)	(76,786)
Exchange gain/(loss) on cash and cash equivalents	15,968	(7,880)
Cash and cash equivalents at the beginning of the year	***3,099,856***	***804,192***
Cash and cash equivalents at the end of the year	***1,461,395***	***3,099,856***

Sasun Khachatryan
General Director

Garri Akhoyan
Head of Accounting Service

NOTES TO THE FINANCIAL STATEMENTS

1. General information

1.1 Company and operations

"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. 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 2016 was 254 employees (2015: 380 employees).

The change of Charter of the Company has been registered in state register on September 08, 2006, registration number is 269.070.00255, and certificate number is 01 A 004948.
Registration address of the Company is 3 Building, Arin-Berdi St. 3rd Lane, Yerevan, 0053, RA.
Tax payer code is 02205028.

1.2 Share capital

Republic of Armenia is the sole Shareholder in reporting and prior years.
Share capital of the Company as at 31.12.2016 was 12,047,679 thousand drams (as at 31.12.2015: 11,459,612 thousand drams). Share capital of the Company consists of 2,273,147 pieces of nominal registered shares with nominal value of 5,300 drams of which of them.

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.

- 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 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.

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 – IFRSs). IFRSs 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.

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.

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 amounts recognized in the financial statements.

a) Useful lives of property, plant and equipment –Notes 3.8 and 4

   Management has estimated useful lives of the property, plant and equipment based on its best estimate 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 loves of property, plant and equipment are different from estimates, financial statements may be materially different.

b) Impairment of trade receivables and financial assets – Notes 6 and 8

   The Company regularly reviews its financial assets to access impairment. As of 31 December 2016, the carrying amount of the Company's impaired receivables was nil (31 December 2015: nil), and carrying amount of other financial assets 8,386,514 thousand drams (31 December 2015: 8,388,166 thousand drams). 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.

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 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
Power plants	- 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.

3.8 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.

3.9 Inventories

Costs comprise charges incurred in bringing inventory to its present location and condition.

The cost of inventories of items that are ordinarily interchangeable shall be assigned by using the weighted average principle.

The cost of inventories of items that are not ordinarily interchangeable, particularly the cost of cars, shall be assigned by using specific identification of their individual costs.

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

3.10 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.

3.11 Impairment

At each reporting date, property and equipment, and intangibles 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.

3.12 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.

3.13 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.

3.14 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.

3.15 Related Party Disclosures

3.15.1. Related party

A party is related to an entity if:

a/ directly, or indirectly through one or more intermediaries, the party

- controls Company (50% and more participation),
- is under common control,
- has an interest in the entity that gives it significant influence over the entity (20-50% participation/share),
- has joint control over the entity;

b/ the party is a member of the key management personnel:

- director,
- persons who are directly responsible for planning, guidance and control of the Company;

c/ Close members of the family of an individual

- the individual's domestic partner,
- children.

3.15.2. Transactions with related parties

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

If there have been transactions between related parties, an entity shall disclose:

- Nature of relations of related party,
- Nature of transaction,
- Amount of outstanding balances
  - terms and conditions,
  - to be secured,
  - consideration to be provided in settlement,
  - details of any guarantees given or received,
  - provisions for doubtful debts and expense recognised during the period.

3.15.3 Key management personnel disclosures

An entity shall disclose key management personnel:

- short-term employee and post-employment benefits,
- termination benefits,
- Share-based payment.

3.16Revenue 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 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.

3.17Corporate income tax

Income tax on current year profit or loss consists of current tax and deferred tax.
Current tax is the amount of income taxes payable/(refundable) in respect of the taxable profit/(loss) for a period. Current tax is recognized in the net profit or loss of the period.
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 carryforward of unused tax losses.
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 asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

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

***3.18.1* Changes in accounting policies**

The change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS. In the absence of transitional provisions the changes in accounting policies are applied retrospectively, as long as it is practicable. In the statement for reporting period each resulting adjustment is stated as adjustment of retained earnings opening balance. The comparative information is restated, as long as it is practicable.

3.18.2 Changes in accounting estimates

The effect of a change in an accounting estimate shall be recognized 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.

3.18.3 Prior period errors

Prior Period Errors are omissions from, and misstatements in, prior period financial statements resulting from the failure to use, or the 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 corrected 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.

3.19 Restatement of comparative information

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

Corrections for 2014

a) The deferred tax asset has increased due to writting off payables.
b) Increase of the income tax liability mainly due to calculating interest income in borrowings provided and correcting the corporate tax balances.
c) Reclassification of loans and borrowings.

Statement of financial position
As at 01.01.2015

Thousand drams

	Previously reported	Corrections increase/(decrease)			Restated
	As at 31.12.2014	a	b	c	As at 01.01.2015
Deferred income tax assets	382,987	26,506	-	-	409,493
Current income tax liabilities	107,434	-	178,941	-	286,375
Non-current loans and borrowings	103,934,804	-	-	3,470,152	107,404,956
Current loans and borrowings	23,582,258	-	-	(3,470,152)	20,112,106
Accumulated loss	(11,123,076)	26,506	(178,941)	-	(11,275,511)

Statement of financial position
As at 31.12..2015

Thousand drams

	Previously reported	Corrections increase/(decrease)	Restated
	As at 31.12.2015		As at 31.12.2015
Deferred income tax assets	2,351,005	26,506	2,377,511
Current income tax liabilities	677,608	178,941	856,549
Non-current loans and borrowings	99,299,676	3,470,152	102,769,828
Current loans and borrowings	13,919,624	(3,470,152)	10,449,472
Accumulated loss	(12,478,499)	(152,435)	(12,630,934)

4. Property, plant and equipment

Thousand drams

	Buildings and constructions	Land	Capital construction-in-process	Transmission devices	Structures	Power plants, equipment	Vehicles	Fixture, fittings and other	Total
Cost									
As at 01.01.2015	18,353,075	5,565,000	2,558,278	8,069,693	3,605,951	135,266,536	511,307	1,721,872	175,651,712
Additions	12,807	-	-	93,587	-	46,221	14,998	15,273	182,886
Deductions	-	-	-	(1,367)	-	(137,181)	(56,612)	(13,934)	(209,094)
Reclassification	17,664	-	-	12	-	(349)	4,259	(21,586)	-
As at 31.12. 2015	18,383,546	5,565,000	2,558,278	8,161,925	3,605,951	135,175,227	473,952	1,701,625	175,625,504
Additions	-	-	-	-	167	70,190	-	17,076	87,433
Deductions	-	-	-	-	-	(9,511)	(187,838)	(7,780)	(205,129)
Reclassification	862,253		(937,487)	(22,369)	937,487	(725,055)	(62,327)	(52,502)	-
As at 31.12. 2016	19,245,799	5,565,000	1,620,791	8,139,556	4,543,605	134,510,851	223,787	1,658,419	175,507,808
Accumulated depreciation, impairment losses									
As at 01.01.2015	2,300,827	-	1,558,463	2,400,034	-	33,252,732	92,809	248,894	39,853,759
Additions	115,364			1,014,056	591,694	6,297,470	84,900	76,256	8,179,740
Deductions	-	-	-	(943)	-	(101,600)	(2,831)	(9,857)	(115,231)
Reclassification	10,612	-	-	-	-	(100)	-	(10,512)	-
As at 31.12.2015	2,426,803	-	1,558,463	3,413,147	591,694	39,448,502	174,878	304,781	47,918,268
Additions	539,380	-	-	660,443	140,246	3,110,581	45,394	79,846	4,575,890
Deductions	-	-	-	-	-	(8,879)	(55,552)	(1,914)	(66,345)
Reclassification	-	-	-	-	-	20	-	(20)	-
As at 31.12.2016	2,966,183	-	1,558,463	4,073,590	731,940	42,550,224	164,720	382,693	52,427,813
Current value									
As at 01.01.2015	16,052,248	5,565,000	999,815	5,669,659	3,605,951	102,013,804	418,498	1,472,978	135,797,953
As at 31.12.2015	15,956,743	5,565,000	999,815	4,748,778	3,014,257	95,726,725	299,074	1,396,844	127,707,236
As at 31.12.2016	16,279,616	5,565,000	62,328	4,065,966	3,811,665	91,960,627	59,067	1,275,726	123,079,995

a) Power plants

As described in note, the new power plant unit with 205MW nominal capacity and 103GCal/h heat export capacity is exploited at the Company since year 2010. The carrying amount of the unit as of December 31, 2016 is drams 104,127,086 thousand (December 31, 2015: drams 107,212,192 thousand).

Included in the property, plant and equipment is the old power plant at the carrying amount of drams 12,570,460 thousand as of December 31, 2016 (December 31, 2015 drams 13,994,297 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.

b) Restrictions on PPE

There is no Property, plant and equipment of the Company pledged as a security for loans and borrowings as of December 31, 2016 (December 31, 2015: drams 18,503,664 thousand).

c) Revaluation of PPE

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 108,499,056 thousand (December 31, 2015: drams 113,098,244 thousand).

d) PPE at zero carrying amount

The cost of an item of property, plant and equipment carrying at 0 dram of carrying amount, as of December 31, 2016 is drams 7,783,333 thousand (December 31, 2015: drams 2,114,470 thousand).

e) Depreciation expense has been charged as follows:

Thousand drams

	2016	2015
Cost of sales (note 16)	3,131,774	3,439,128
Administrative expenses (note 17)	99,242	72,664
Other expenses (note 18)	1,344,874	4,667,948
	4,575,890	**8,179,740**

5. Deferred income taxes

Thousand drams

	31.12.2016	31.12.2015
Opening balance	*2,377,511*	*409,493*
Reimbursement/(expense) to profit or loss for the year	(681,576)	1,968,018
Closing balance	*1,695,935*	*2,377,511*

Deferred income taxes for the year ended December 31, 2016 can be summarized as follows:

Thousand drams

	January 1, 2016	Recognized in profit or loss	December 31, 2016
Deferred income tax assets			
Non-current financial assets	4,213,575	(3,562,912)	650,663
Trade and other receivables	1,033,924	(1,033,614)	310
Trade and other payables	31,017	(4,821)	26,196
Impairment of inventory		2,501	2,501
Tax loss	-	3,682,045	3,682,045
	5,278,516	*(916,801)*	*4,361,715*
Deferred income tax liabilities			
Property, plant and equipment	2,901,005	(235,225)	2,665,780
	2,901,005	*(235,225)*	*2,665,780*
Net position – deferred income tax assets	*2,377,511*	*(681,576)*	*1,695,935*

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

Thousand drams

	January 1, 2015	Recognized in profit or loss	December 31, 2015
Deferred income tax assets			
Non-current financial assets	3,271,404	942,171	4,213,575
Trade and other receivables	1,018,235	15,689	1,033,924
Trade and other payables	32,444	(1,427)	31,017
	4,322,083	*956,433*	*5,278,516*
Deferred income tax liabilities			
Property, plant and equipment	3,912,590	(1,011,585)	2,901,005
	3,912,590	*(1,011,585)*	*2,901,005*
Net position – deferred income tax assets	*409,493*	*1,968,018*	*2,377,511*

6. Non-current financial assets

2016

Thousand drams

	Gross amount	Impairment allowance	Carrying amount
Borrowings provided (a)	10,513,802	(2,127,338)	8,386,464
Investments in securities (b)	721,400	(721,400)	-
Investment in joint venture*	50	-	50
	11,235,252	**(2,848,738)**	**8,386,514**

(*) The "Qimprom Management" CJSC, whose activity has been temporarily suspended, was founded on 4 December 2015, where "Yerevan Thermal Power Centre" CJSC holds 50% of share interest, and the other 50% held by "Esid Chemical" LLC.

***Movement of the allowance is presented below:**

Thousand drams

	31.12.2016	31.12.2015
Opening balance	***21,247,230***	***18,087,114***
Reimbursement recognized at gain or loss	-	3,160,116
Decrease of allowance (disposal of financial asset)	(18,398,492)	-
Closing balance	***2,848,738***	***21,247,230***

6.1 Movement of the non-current financial assets

a) Borrowings provided

2016

Thousand drams

Borrower	Opening balance as at 01.01.2016	Movement of the year				Closing balance as at 31.12.2016
		Reclassification of receivables	Redemption	Disposal	Debt transfer	
Vanadzor Qimprom CJSC	7,975,384	386,792	-	-	(8,362,176)	-
Nairit plant CJSC	18,398,492	-	-	(18,398,492)	-	-
Reception House CJSC	25,990	-	(1,702)	-	-	24,288
Qimprom Managment CJSC	-	-	-	-	8,362,176	8,362,176
Total	**26,399,866**	**386,792**	**(1,702)**	**(18,398,492)**	**-**	**8,386,464**

b) Investments in securities

2016

Thousand drams

	Opening balance as at 01.01.2016	Movement of the year			Closing balance as at 31.12.2016
		Investment	Interest income	Redemption	
Nairit plant CJSC	721,400	-	-	-	721,400
Qimprom Managment CJSC	-	50	-	-	50
Total	**721,400**	**50**	**-**	**-**	**721,450**

c) Long-term receivables

2016

Thousand drams

	Opening balance as at 01.01.2016	Movement of the year			Closing balance as at 31.12.2016
		Reclassification of the borrowings provided	Interest income	Redemption	
Vanadzor Qimprom CJSC	386,792	(386,792)	-	-	-
Total	**386,792**	**(386,792)**	**-**	**-**	**-**

7. Inventories

Thousand drams

	31.12.2016	31.12.2015
Spare parts	4,483,132	4,601,188
Materials	900,835	967,990
Construction materials	85,082	86,371
Other*	71,150	117,557
	5,540,199	**5,773,106**

* Impairment losses of inventories is carrying at the amount of 12,503 thousand drams.

8. Trade and other receivables

Thousand drams

	31.12.2016	31.12.2015
Trade receivables	7,375,957	22,550,893
Allowances for doubtful trade receivables*	(410,154)	(5,089,620)
Net trade receivables	*6,965,803*	*17,461,273*
Advances and prepayments	2,727,333	176,819
Taxes	2,437,000	23,302
Deferred taxes on VAT	3,297,012	6,993,919
Other	2,019	3,300
	15,429,167	**24,658,613**

***Allowances for doubtful trade receivables**

Thousand drams

	31.12.2016	31.12.2015
Opening balance	**5,089,620**	**5,089,620**
Increase of the allowances during the year	7,127	-
Decrease of the allowances (On “Nairit Plant” CJSC)	(4,685,045)	-
Decrease of the allowances (on advances and prepayments)	(1,548)	-
Closing balance	**410,154**	**5,089,620**

9. Cash and bank balances

Thousand drams

	31.12.2016	31.12.2015
Bank balances (AMD)	1,388,413	3,098,735
Bank balances (currency)	72,657	1,056
Cash on desk (AMD)	325	65
	1,461,395	**3,099,856**

10. Capital and reserves

10.1Share capital

Thousand drams

	Ordinary shares 2016	Ordinary shares 2015
Number of ordinary shares of drams 5,300 each	2,162,191	140.324
Number of ordinary shares of drams 5,300 each, issued and fully paid during the year (a)	120,262	2,021,867
Shares bought back (b)	(9,306)	-
	2,273,147	**2,162,191**

a) During the year the share capital of the Company has been increased by drams 120,262 thousand by issuing additional shares, the nominal value by drams 637,389 (RA Government decision, N777, 29 July 2016).

b) During the year the share capital of the Company has decreased by drams 9,306 thousand, the nominal value drams 49,322 thousand (RA Government decision).

10.2Reserve 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, 2016 the Company has not retained earnings and has not created a non-distributable reserve.

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.

10.4 Paid-in-capital

Thousand drams

	2016	2015
Increase of Paid-in-capital (a)	1,151,629	-
Decrease of Paid-in-capital (b)	(81,828)	-
	1,069,801	-

(a) Increase of Paid-in-capital

According to the Government Decision N 777, dated on 29 July 2016, the Company has received 1,789,018 thousand drams from the issue of additional shares to state shareholder. At the time of the transaction, the market value of one share was assessed at 14,876 drams. The number of issued shares was 120,262, the share capital has increased by 637,389 thousand drams of its nominal value, and the difference of the amount of 1,151,629 thousand drams was recognized in paid-in-capital.

(b) Decrease of Paid-in-capital

According to the Decision of the Government of RA, the company has disposed a property with a carrying cost of 131,141 thousand drams to the state shareholder. The property's disposal value was assessed at 131,150 thousand drams. At the time of the transaction, the market value of one share was estimated 14,093 drams. The number of shares reduced related to disposal was 9,306 units, the share capital has decreased by 49,322 thousand drams of its nominal value, and the difference of the amount of 81,828 thousand drams was recognized in paid-in-capital.

11 Loans and borrowings

Thousand drams

	Current (a)		Non-current (b)	
	As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
Secured loan from the Ministry of Finance	-	-	112,519,349	102,769,828
Secured bank loans	3,591,806	5,705,709	-	-
Other borrowings	4,593,490	4,743,763	-	-
	8,185,296	**10,449,472**	112,519,349	**102,769,828**

Bank loans bear a weighted average interest rate of 8% annually (2015: 11.7% 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 4,593,490 thousand (December 31, 2015: drams 4,593,490 thousand), from which drams 4,164,300 thousand have been transferred to the Company based on the assignment agreement.

Loans from commercial banks are secured through cash at the banks, and the loans from the Ministry of Finance (MoF) are secured by the state bonds issued by the MoF.

Refer to note 23 for more information about the Company's exposure to interest rate and foreign currency risks.

11.1 The movement of loans and borrowings

a) Current loans and borrowings

Thousand drams

Loans and borrowings	Opening balance	Movement of year				Closing balance
		Providing	Interest accrued	Exchange rate difference	Redemption	
Loans from commercial banks						
USA	2,815,767	31,118,062	292,532	88,969	(30,723,524)	3,591,806
EUR	2,889,942	-	118,382	1,830	(3,010,154)	-
Borrowings						
HVEN CJSC	150,273	-	-	-	(150 273)	-
Vorotan HPPS	4,593,490	-	-	-	-	4,593,490
Total	**10,449,472**	**31,118, 062**	**410,914**	**90,799**	**(33,883,951)**	**8,185,296**

b) Non-current loans and borrowings

Thousand drams

Loans	Opening balance	Movement of year				Closing balance
		Providing	Interest accrued	Exchange difference	Redemption	
Yerevan Combined Cycle Co-generation Power Plant Project (JICA, ARM-P2)	102,728,782	-	830,079	3,566,855	(4,758,844)	102,366,872
Power Sector Financial Recovery Program (IBRD 8615-AM)	-	8,009,641	86,846	154,875	(37,774)	8,213,588
Power Transmission Improvement Project (IBRD 8495-AM)	41,046	1,891,547	38,883	4,313	(36,900)	1,938,889
Total	**102,769,828**	**9,901,188**	**955,808**	**3,726,043**	**(4,833,518)**	**112 ,519,349**

12 Grants related to assets

Thousand drams

	31.12.2016	31.12.2015
Opening balance	38,174	39,181
Adjustment to the opening balance (profit/loss)	(3,873)	-
Income recognized in profit or loss	(1,006)	(1,007)
Closing balance	33,295	38,174

13. Grants related to income

Thousand drams

	31.12.2016	31.12.2015
Opening balance	435,315	439,746
Adjustment to the opening balance (profit/loss)	771	-
Expense recognized in profit or loss	(18,215)	(4,431)
Closing balance	417,871	435,315

14. Trade and other payables

Thousand drams

	As at 31.12.2016	As at 31.12.2015
Trade payables	20,265,948	42,219,177
Advances from costumers	190,745	328,774
Taxes and duties payable	24,897	201,260
Payables to employees	11,560	24,405
Provision for possible additional taxes	6,476	518,527
Other trade payables	3,500,000	3,500,000
Other	27,225	149,224
	24,026,851	46,941,367

15. Revenue

	2016	2015
		Thousand drams
Sale of electricity (a)	42,038,002	46,213,286
Provision of capacity (b)	10,237,332	11,646,660
Sale of natural gas	17,756,302	10,750,260
	70,031,636	**68,610,206**

Sale service tariffs are set by Public Services Regulator Commission of the Republic of Armenia ("PSRC").

a) Electricity tariff (without VAT).

Applcation date	AMD/KWh
01.08.2015	18.500
01.08.2016	17.767

b) Provision of capacity tariff (without VAT).

Application date	AMD/KWh-month
01.08.2015	3,564.11
01.08.2016	4,707.83

16. Cost of sales

Thousand drams

	2016	2015
Cost of sold electricity	12,311,049	11,018,950
Cost of sold gas	15,910,994	9,587,863
Cost of gas and other materials used in production	28,291,594	33,233,615
Power and gas transmission services	2,930,140	3,975,055
Depreciation expenses	3,136,283	3,439,128
Employee remuneration	444,080	652,652
	63,024,140	**61,907,263**

17. Administrative expenses

Thousand drams

	2016	2015
Employee remuneration	195,007	262,636
Depreciation and amortization expense	106,030	75,444
Office and utility expenses	34,038	35,137
Business trips and hospitality costs	8,110	39,197
Audit and consulting	82,801	-
Non refundable taxes and duties	116,665	107,265
Bank charges	30,482	59,058
Other	28,127	36,905
	601,260	**615,642**

18. Other expenses

Thousand drams

	2016	2015
Depreciation	1,344,877	4,667,948
Waste of gas and electricity	982,074	907,558
Fines and penalties	118,841	287,785
Foreign exchange costs	84,644	-
Costs of security	130,355	-
Provision for possible income tax	-	518,527
Other	74,812	1,520,807
	2,735,603	**7,902,625**

19. Finance income and costs

	2016	2015
		Thousand drams
Interest income on borrowings provided	-	561,589
Interest expenses on loan from the Ministry of Finance	(930,277)	(771,803)
Interest expenses on bank loans	(413,603)	(745,027)
Interest expenses on other borrowings	-	(91,316)
	(1,343,880)	**(1,046,557)**

20. Foreign currency exchange gain/(loss), net

	2016	2015
		Thousand drams
Borrowings and receivables	(35,568)	688,550
Loans	(3,816,841)	(1,370,632)
	(3,852,409)	**(682,082)**

21. 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 (2015 - 20%).

	2016	2015
		Thousand drams
Current tax	-	964,065
Deferred tax	681,576	(1,968,018)
	681,576	**(1,003,953)**

Reconciliation of effective tax rate is as follows:

	2016		2015	
	In thousand drams	Effective tax%	In thousand drams	Effective tax%
Profit before taxation	**(1,066,280)**		**(6,375,717)**	
Tax calculated at a tax rate of 20% (2015: 20%)	(213,256)	20	(1,275,143)	20
(Non-taxable)/non-deductible items, net	(853,024)	80	271,190	(4.25)
Income tax recovery	**(1,066,280)**	**100**	**(1,003,953)**	**15.75**

22. Related party transactions

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.

22.1 Related Party Disclosures

Transactions between Company and related parties, including participants, close members of the family and other companies under common control, are disclosed below:

22.2 Transactions with related parties

The following transactions between the related parties of Company were made during the reporting year:

	Year ended at 31, December, 2016	Year ended at 31, December, 2015
Shareholders		
Accrual of interest expense	955,808	771,803
Redemption of interest accrued	4,833,518	5,819,891
Redemption of principal amount of borrowings	-	2,901,416
Other organization other common control		
Provision of services	1,472	794
Provision of borrowings	-	5,095,400
Repayment of provided borrowings	1,702	-
Impairment of financial assets	-	3,160,116
Acquision of services	1,961,069	1,388,046
Borrowings received	-	10,679,171
Repayment of borrowings received	150,273	5,877,346
Accrual of interest expense	-	561,589
Accrual of interest expense	-	99,242

	As of 31 December, 2016	As of 31 December, 2015
Loans and borrowings from Ministry of Finance of RA	112,519,349	102,729,433
Trade and other receivables	26,753	3,975
Non-current financial assets	11,617,775	8,633,225
Trade and other payables	5,144,330	4,713,596
Other borrowings	4,593,490	4,693,521

22.3 Compensations to key management

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

Thousand drams

	2016	2015
Salaries and other short-term reimbursements	6,825	6,374
	6,825	**6,374**

23. Financial instruments risks

The Company activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company does not employ derivative instruments to hedge risk exposures.

23.1 Market risk

23.1.1. Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The management assessed that the fair value of the financial assets and liabilities does not materially different from their carrying value as at reporting date.

23.2 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 trade and other receivables, borrowings provided, requirements for financial institutions. The impacted of credit risk is presented at following carrying amount of financial assets.

In thousand drams	As of 31 December 2016	As of 31 December 2015
Non-current financial assets	8,386,514	8,388,166
Trade and other receivables	6,965,800	17,560,146
Bank balances	1,461,395	3,099,856
	16,813,709	**29,048,168**

Trade receivables of the Company are mainly the receivables amounts from "Electric Networks of Armenia" CJSC. The credit risk is acceptable for these trade receivables. As at 31 December 2016, a provision has been created for old-aging debts in the amount of 410,154 thousand drams (As at 31 December 2015: 5,089,620 thousand drams).

Non-current financial assets include the borrowings provided to "Qimprom Management" CJSC.

The credit risk of cash and cash equivalents is acceptable, as the contractual partners are reputable banks.

23.3 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 transactions of the Company are mainly implemented in Armenian drams. Company's exposure to the currency risk relates to the commercial transactions, expressed initially in a Japanese Yen, USD and EURO.
As of 31 December 2016 the Company's foreign currency assets/(liabilities) are as follows:

Articles in foreign currency	USD	EUR	JPY
Financial assets			
Cash and cash equivalents	72,462	62	-
Trade and other receivables	1,183,740	880,489	19,349
	1,256,202	**880,551**	**19,349**
Financial liabilities			
Loans and borrowings	13,357,893	-	102,366,872
Trade and other payables	477,701	-	-
	13,835,594	-	**102,366,872**
Net result	**(12,579,392)**	**880,551**	**(102,347,523)**

As of 31, December, 2015

Articles in foreign currency	USD	EUR	JPY
Financial assets			
Trade and other receivables	1,459,024	-	-
Cash and cash equivalents	11	887	-
	1,459,035	**887**	-
Financial liabilities			
Loans and borrowings	2,837,431	2,888,477	102,729,433
	2,837,431	**2,888,477**	**102,729,433**
Net result	**(1,378,396)**	**(2,887,590)**	**(102,729,433)**

The following table presents the sensitivity of the Company to the increase / decrease of dram against the JPY, Dollar and EURO by 10% (2015: 10%). The 10% is a possible change in the management's appreciation. The sensitivity analysis includes only foreign currency monetary items and at the end of the period adjusts their conversion by changing the exchange rate by 10% (2015: 10%).

The 10% of appreciation of the AMD against the mentioned currencies (2015: 10%) will have the following impact:

In thousand drams	Effect of USA		Effect of EURO		Effect of JPY	
	2016	2015	2016	2015	2016	2015
Gain or loss	1,257,939	137,840	88,055	288,759	10,234,752	10,272,943

The effect of the currency fluctuation is variable during the year depending on foreign currency turnover volume. So above presented analysis is considered to be as a reflection of the company's exposure to foreign exchange risk.

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

	31.12.2016	**31.12.2015**	AMD
	AMD	AMD	Appreciation/ (depreciation)
USD rate is	483.94	483.75	-0.04%
EUR rate is	512.20	528.69	3.1%
Yen rate is	4.141	4.015	-3.14%

23.4 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
On procurements	24,444,633	-	-	-
Borrowings and loans	4,593,490	3,591,806	-	112,519,349
Total	**29,038,123**	**3,591,806**	-	**112,519,349**

24. Contingencies

24.1 Insurance

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.

24.2 Contingent liabilities and provisions

As at 31.12.2016 and date of signing these financial statements there were no litigations initiated against the Company, but the Company started judicial process against "Vanadzor Qimprom" CJSC and "Nairit plant" CJSC. The above-mentioned organizations are bankrupt.

24.3 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.

25. 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 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 Company's as capital-managed amounts are summarized below:

In thousand drams	As of 31, December, 2016	As of 31, December, 2015
Equity	10,425,883	10,515,871
Decrease- cash and bank balances	(1,461,395)	(3,099,856)
Capital	8,964,488	7,416,015
Equity	10,425,883	10,515,871
Borrowings	120,704,645	113,219,300
Total financing	131,130,528	123,735,171
Ratio of Capital and total financing	0.08	0.06