Electric Networks of Armenia CJSC

Financial statements

For the year ended 31 December 2015
together with independent auditors' report

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Independent auditors' report to the shareholders of Electric Networks of Armenia CJSC

We have audited the accompanying financial statements of Electric Networks of Armenia CJSC ("the Company"), which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, the statement of changes in equity and the 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 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 of the audited entity, 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 audit opinion.

Conclusion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young CJSC

On behalf of General Director H. Sarkisyan
(by power of attorney dated 31 July 2013)

Partner (Assurance) Eric Hayrapetyan

15 February 2016

Yerevan, Republic of Armenia

Statement of comprehensive income

for the year ended 31 December 2015

(in thousands of Armenian drams)

	Notes	2015 AMD'000	2014 AMD'000
Revenue	4	181,004,687	157,935,068
Purchased power	5	(110,767,685)	(112,887,073)
Service fees for electricity transmission		(7,840,067)	(8,191,507)
Wages, benefits and payroll taxes		(19,129,072)	(18,961,470)
Depreciation and amortization	12, 13	(6,370,431)	(6,156,212)
Repairs and maintenance	6	(1,320,490)	(1,360,276)
Inventories used	7	(3,028,299)	(3,136,564)
(Impairment losses) / reversal of impairment losses	16	(590,946)	366,603
Other operating income	8	2,159,579	2,733,360
Other operating expenses	9	(7,022,437)	(8,309,945)
Operating profit		27,094,839	2,031,984
Finance income	10	3,618,847	189,897
Finance expenses	10	(6,321,252)	(12,073,277)
Profit/(loss) before tax		24,392,434	(9,851,396)
Income tax expense	11	(3,385,098)	(825,531)
Profit/(loss) for the year		21,007,336	(10,676,927)
Other comprehensive income for the year		-	-
Total comprehensive income/(loss)		21,007,336	(10,676,927)

General Director Karen Harutyunyan

Chief Accountant Nairi Adamyan

«ՀԱՅԱՍՏԱՆԻ ԷԼԵԿՏՐԱԿԱՆ ՑԱՆՑԵՐ»
"ЭЛЕКТРИЧЕСКИЕ СЕТИ АРМЕНИИ"
"ELECTRIC NETWORKS OF ARMENIA"
01520882

15 February 2016

The accompanying notes are an integral part of these financial statements.

Statement of financial position

as at 31 December 2015

(in thousands of Armenian drams)

	Notes	2015 AMD'000	2014 AMD'000
Assets			
Non-current assets			
Property, plant and equipment	12	106,057,247	105,839,864
Intangible assets	13	761,417	864,775
Prepayments for non-current assets	15	138,606	136,276
Income tax prepayment		–	576,850
Other non-current assets	18	3,592	3,281
		106,960,862	**107,421,046**
Current assets			
Inventories	14	3,031,196	5,168,077
Trade and other receivables	16	35,187,566	26,151,771
Other current assets	18	2,567	923,664
Cash and cash equivalents	17	1,435,079	2,550,112
		39,656,408	**34,793,624**
Total assets		**146,617,270**	**142,214,670**
Equity and liabilities			
Equity			
Share capital	19	18,654,221	18,654,221
Additional paid-in capital	20	46,985,333	39,471,856
Accumulated deficit		(34,138,688)	(55,146,024)
Total equity		**31,500,866**	**2,980,053**
Non-current liabilities			
Government grants	23	4,489,109	4,739,158
Loans and borrowings	21	41,980,592	52,785,914
Trade and other payables	24	68,015	68,758
Deferred tax liabilities, net	11	4,452,467	1,112,869
		50,990,183	**58,706,699**
Current liabilities			
Government grants	23	244,146	244,281
Loans and borrowings	21	19,646,387	42,028,378
Trade and other payables	24	40,915,988	36,111,578
Income tax payable		1,347,018	–
Provisions	22	1,972,682	2,143,681
		64,126,221	**80,527,918**
Total liabilities		**115,116,404**	**139,234,617**
Total equity and liabilities		**146,617,270**	**142,214,670**

Statement of changes in equity

for the year ended 31 December 2015

(in thousands of Armenian drams)

	Share capital	*Additional paid-in capital*	*Accumulated deficit*	*Total equity*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*
At 1 January 2014	**18,654,221**	**39,271,407**	**(44,469,097)**	**13,456,531**
Total comprehensive loss	–	–	(10,676,927)	**(10,676,927)**
Additional paid-in capital resulting from a borrowing received from the company under common control, net of tax in the amount of 50,112	–	200,449	–	**200,449**
At 31 December 2014	**18,654,221**	**39,471,856**	**(55,146,024)**	**2,980,053**
Total comprehensive income	–	–	21,007,336	**21,007,336**
Additional paid-in capital resulting from a borrowing received from the company under common control, net of tax in the amount of 1,878,369	–	7,513,477	–	**7,513,477**
At 31 December 2015	**18,654,221**	**46,985,333**	**(34,138,688)**	**31,500,866**

Statement of cash flows

for the year ended 31 December 2015

(in thousands of Armenian drams)

	Notes	2015 AMD'000	2014 AMD'000
Operating activities			
Profit/(loss) before tax		24,392,434	(9,851,396)
Non-cash adjustment to reconcile profit/(loss) before tax to net cash flows:			
Depreciation and amortization	12, 13	6,370,431	6,156,212
(Reversal) of impairment losses / impairment losses	16	590,946	(366,603)
Loss on disposal of property, plant and equipment	9	399,881	106,793
Loss on write-off of inventories	9	822,613	–
Interest income	10	(190,310)	(189,897)
Interest expense	10	6,321,252	6,790,665
Foreign exchange (gain)/loss, net	10	(3,428,537)	5,282,612
Gains on government grants received	8	(250,184)	(250,194)
Provision expenses, net	22	1,904,186	2,070,164
Working capital adjustments:			
Increase in trade and other receivables and other assets		(10,753,020)	(7,382,927)
Decrease/(increase) in inventories		134,993	(237,926)
Increase in trade and other payables		2,744,881	3,794,661
Net cash flows from operating activities		**29,059,566**	**5,922,164**
Investing activities			
Acquisition of property, plant and equipment		(5,676,427)	(6,256,272)
Proceeds from sale of property, plant and equipment		124,118	58,798
Acquisition of intangible assets		(152,751)	(123,679)
Interest received		147,846	164,143
Net cash flows used in investing activities		**(5,557,214)**	**(6,157,010)**
Financing activities			
Proceeds from borrowings		74,907,782	95,538,011
Repayment of borrowings		(95,747,543)	(90,829,488)
Interest paid		(3,785,668)	(4,252,740)
Net cash flows (used in)/from financing activities		**(24,625,429)**	**455,783**
Effect of exchange rate changes on cash and cash equivalents		8,044	(4,156)
Net (decrease)/increase in cash and cash equivalents		**(1,115,033)**	**216,781**
Cash and cash equivalents at 1 January		2,550,112	2,333,331
Cash and cash equivalents at 31 December	17	**1,435,079**	**2,550,112**

1. Corporate information

Electric Networks of Armenia CJSC (the "Company") is a closed joint stock company incorporated and domiciled in the Republic of Armenia in accordance with the regulations of the Republic of Armenia. The Company's shareholders are Liormand Holdings Ltd (equity interest - 49.9997971%) and Interenergo B.V. (equity interest -50.0002029%), registered in the Netherlands. The Company's registered office is 127 A, Armenakyan Street, Yerevan, the Republic of Armenia.

The Company is principally engaged in the purchase and regulated distribution of electrical power to residential and non-residential customers in the Republic of Armenia. The Company has an exclusive license for distribution of electric energy within the Republic of Armenia.

2.1 Basis of preparation

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis. The financial statements are presented in Armenian drams and all values are rounded to the nearest thousand, except where otherwise indicated.

2.2 Going concern

As at 31 December 2015 and 2014, the Company's current liabilities exceeded its current assets by AMD 24,469,813 thousand and AMD 45,734,294 thousand, respectively. In 2015, the Company's profit amounted to AMD 21,007,336 thousand (2014: loss of AMD 10,676,927 thousand).

According to the decisions of Public Service Regulation Committee the tariffs for electricity distributed have been increased twice – in August 2014 and in August 2015. The Company expects to cover operational expenses and gain profit in next periods.

Considering the above changes and plans of the Company management believes that the going concern basis for preparing these financial statements is appropriate.

2.3 Summary of significant accounting policies

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

2.3 Summary of significant accounting policies (continued)

Current versus non-current classification (continued)

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair value-related disclosures for financial instruments and non-financial assets that are measured at fair value or fair values of which are to be disclosed, are summarized in the following notes:

- Financial instruments (including those carried at amortized cost) – Note 28
- Quantitative disclosures of fair value measurement hierarchy – Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured in the financial statements at fair value or for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described below, based on the lowest level inputs that are significant to the measurement at fair value as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2.3 Summary of significant accounting policies (continued)

Fair value measurement (continued)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers between levels in the hierarchy are necessary by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are engaged for valuation of significant assets, such as property. Involvement of external valuers is decided upon annually by the valuation committee.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The valuation committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the valuation committee analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Company's accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by comparing the information in the valuation computation to contracts and other relevant documents.

The valuation committee, in conjunction with the Company's external valuers, also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of their nature, inherent characteristics and risks and the applicable level of the fair value hierarchy as explained above.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale and distribution of the electricity in the ordinary course of the Company's activities. Revenue is shown net of applicable value added tax (VAT) and discounts. Tariffs for sold electricity and purchased power are determined by the Public Services Regulatory Commission (PSRC) of the Republic of Armenia. Revenues are calculated based on the volume of sold electricity and determined tariff for distributed electricity. Purchased power includes purchased electricity for distribution and available capacity. Available capacity represents the generating capacity within a short interval of time to meet demand for electricity.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Company receives non-monetary grants, the asset and the grant are recorded gross at fair value and released to the statement of comprehensive income over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or other similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as additional government grants.

2.3 Summary of significant accounting policies (continued)

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred tax

Deferred tax is calculated using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about changes of facts and circumstances becomes available. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

2.3 Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if all recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

At each reporting date the Company's management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the statement of comprehensive income to the extent it exceeds the previous revaluation surplus in equity.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

Depreciation

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	45
Network equipment	25 to 45
Other	3 to 25

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs that the Company incurs in connection with the borrowing of the funds are recognized in profit or loss in the period in which they are incurred.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus of borrowed funds is available for short term investments, the income generated from temporary investment of funds is also capitalized and deducted from the total. Calculations are made using a weighted average of rates applicable to relevant general borrowings of the Company during the reporting period.

2.3 Summary of significant accounting policies (continued)

Operating leases

Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Intangible assets

The Company's intangible assets have definite useful lives and primarily include capitalized computer software. Acquired computer software licenses, patents are capitalized on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortized using the straight-line method over their useful lives:

	Useful lives in years
Software	3-10
Other	5-10

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus costs directly related to acquisition of the financial asset, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

For the purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets

Loans and receivables

This category is the most relevant to the Company. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR) less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income as finance expenses.

2.3 Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance expenses in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

2.3 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Loans and borrowings

This category is the most relevant to the Company. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses related to such financial liabilities are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance expenses in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the first-in, first-out basis and includes expenses incurred in acquiring the inventories and bringing them to their existing location and condition.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are included in the carrying amount of the asset once the Company has obtained control over the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the asset, goods or services relating to the prepayments will not be received, the carrying amount of prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, as well as short term deposits with maturity of three months or less.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid in capital in equity.

2.3 Summary of significant accounting policies (continued)

Value added tax

Output value added tax related to sales of goods is payable to the tax authorities upon delivery of goods and services to customers. Input VAT is generally recoverable against output VAT upon payment for purchases. Exception is made for the purchases of electricity where input VAT is recovered against output VAT upon the receipt of the invoice. The tax authorities permit the settlement of VAT on a net basis. VAT amounts related to sales and purchases are recognized in the statement of financial position on a net basis and disclosed separately as an asset or liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortized cost using the effective interest method.

Employee benefits

Wages, salaries, contributions to the State budget of RA, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the respective services were rendered by the employees of the Company. Employees receive pension benefits from the State pension fund of the Republic of Armenia in accordance with the laws and regulations. Contributions are made by the Company to the Government's Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Contingent assets and liabilities

Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated.

They are disclosed unless the possibility of an outflow of recourses embodying economic benefit is remote.

Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which the Company operates. The functional currency of the Company is the national currency of the Republic of Armenia - the Armenian Dram (AMD).

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of Armenia (CBA) at respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBA are recognized in profit and loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

As at 31 December 2015, the principal rates of exchange used for translating foreign currency balances were 483.75 AMD/US dollar (USD) (2014: 474.97 AMD/USD), 40.15 AMD/Japanese yen (JPY) (2014: 39.69 AMD/JPY), 528.69 AMD/Euro (EUR) (2014: 577.47 AMD/EUR), 6.62 AMD/Russian ruble (RUR) (2014: 8.15 AMD/RUR).

2.4 New standards, interpretations and amendments to existing standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Company has not early adopted standards, interpretations or amendments that have been issued but are not yet effective.

Although these new standards and amendments were applied for the first time in 2015, they did not have a material impact on the annual financial statements of the Company. The nature and the impact of each new standard and amendment are described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment becomes effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Company, since it has no defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for the reporting periods beginning on or after 1 July 2014. The Company has applied these improvements for the first time in these financial statements. They include:

IFRS 2 Share-based Payment

This amendment is applied prospectively and clarifies issues relating to the definitions of performance and service conditions which are vesting conditions. This improvement is not applicable to the Company as it has no share-based payments.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Company's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

This improvement is not applicable to the Company as it has no operating segments.

2.4 New standards, interpretations and amendments to existing standards and interpretations (continued)

Annual improvements 2010-2012 Cycle (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying amount and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Company during the prior periods.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Company as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective for the reporting periods starting on or after 1 July 2014 and the Company has applied these improvements for the first time in these financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3 This scope exception applies only to the accounting in the financial statements of the joint arrangements themselves.

Company is not a joint arrangement, and thus this amendment is not relevant for the Company.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. Company does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Company has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Company.

IFRS 13 Fair Value Measurement

This amendment to IFRS 13 clarifies in the *Basis for Conclusions* that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Company’s current accounting policy and, thus, this amendment did not impact the Company’s accounting policy.

2.4 New standards, interpretations and amendments to existing standards and interpretations (continued)

Annual improvements 2011-2013 Cycle (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendments are applied retrospectively and clarify in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

2.5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. During 2015, the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity.

Amendments to IAS 16 and IAS 38: 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 1 January 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.

3. Significant accounting judgments, estimates and assumptions

Preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of assets; (b) expected depreciation, which depends on operational factors and maintenance program; and (c) technical and commercial obsolescence arising from changes in market conditions.

3. Significant accounting judgments, estimates and assumptions (continued)

Impairment of assets and accounting for provisions

At each reporting date, the Company assesses whether there is an indication that the recoverable amount of the Company's assets has declined below the carrying amount. When such decline is identified, the carrying amount is reduced to the recoverable amount. The amount of reduction is recorded in the statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment provision will be fully or partly reversed.

Accounting for impairment includes allowance against property, plant and equipment, intangible assets, trade and other receivables, other non-current assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for tax liabilities and legal proceedings. The Company records an impairment charge or accrues these provisions when its assessments indicate that it is probable that a liability will arise or an asset will not be recovered and the amount can be reasonably estimated.

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on management's assessment of collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or if actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates.

If management determines that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts.

Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Tax legislation

Compliance with tax legislation in the Republic of Armenia is subject to a significant degree of interpretation and can be routinely challenged by tax authorities. The Company's uncertain tax positions are reassessed by management at each reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretations of tax laws that have been enacted or substantively enacted as at the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax are recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. Revenue

	2015	*2014*
	AMD'000	*AMD'000*
Electricity distribution		
Entities	**113,477,321**	**96,215,484**
Including part subsidized by the Government	45,812	–
Including part subsidized by Tashir Charity Foundation	45,812	–
Households	**67,527,366**	**61,719,584**
Including part subsidized by the Government	1,392,105	–
Including part subsidized by Tashir Charity Foundation	1,392,105	–
	181,004,687	**157,935,068**

In June 2015 in accordance with resolution № 174N the tariffs of electricity sold were increased by PSRC. For the customers using 0.38kV power networks, including households, the price for 1kWh for daytime increased from AMD 41.85 to AMD 48.78 and the nighttime tariff increased from AMD 31.85 to AMD 38.78. The increase in tariffs comprised AMD 6.93.

In accordance with Government decree N 1030- N, 31 August 2015 and N 1269- N, 29 October 2015, for the period from August 1 2015 to July 31 2016 the Government of Armenia and Tashir Charity Foundation subsidize tariff increase for certain group of customers. Company bills certain group of customers by lower tariffs (tariffs before increase) and the Government of Armenia and Tashir Charity Foundation pay to the Company the difference between lower tariffs billed to customers and contractual tariffs established by PSRC. The Company has enforceable right to require this group of customers to repay this difference to the Company in case if no payments were made by Tashir Charity Foundation or Government on behalf of these customers.

5. Purchased power

	2015	*2014*
	AMD'000	*AMD'000*
Electricity for distribution	73,445,395	83,487,490
Available capacity	37,322,290	29,399,583
	110,767,685	**112,887,073**

In August 2015, in accordance with resolution № 173A, dated 1 August 2015 the tariffs of electricity and capacity purchase were increased by PSRC. The average tariff rate increased from AMD 18.56 to AMD 19.17 for one kW/h in 2015 or by 3% (2014: from AMD 17.8 to AMD 18.6 for one kW/h or by 4%).

6. Repairs and maintenance

	2015	*2014*
	AMD'000	*AMD'000*
Repair and maintenance of transformers and cable lines	720,080	718,570
Repair of administrative buildings	300,340	302,200
Maintenance of high-voltage grids	209,245	218,034
Repair of electric meters	85,260	99,549
Other	5,565	21,923
	1,320,490	**1,360,276**

7. Inventories used

	2015	*2014*
	AMD'000	*AMD'000*
Materials and operating supplies	1,440,983	1,364,190
Fuel	800,988	942,087
Spare parts used in vehicles	284,539	259,946
Spare parts	253,387	252,110
Administrative supplies	247,959	268,915
Other	443	49,316
	3,028,299	**3,136,564**

8. Other operating income

	2015	*2014*
	AMD'000	*AMD'000*
Fines and penalties	925,899	438,888
Technical support for subscribers	703,215	1,591,909
Reversal of tax risk provision (Note 22)	239,138	356,945
Income from government grants received (Note 23)	250,184	250,194
Income from rent	22,088	19,828
Income from sales of inventory	620	6,274
Other income	18,435	69,322
	2,159,579	**2,733,360**

9. Other operating expenses

	2015	*2014*
	AMD'000	*AMD'000*
Administrative service fees	1,207,170	1,252,199
Collection fees and bank charges	1,058,475	1,115,519
Inventory write-off	822,613	–
Taxes other than income tax	629,737	776,476
Charity expenses	554,355	1,552,691
Operating leases	449,055	481,264
Additional payments to employees	401,114	383,935
Loss on disposal of property, plant and equipment	399,881	106,793
Consulting services	264,340	206,229
Fines and penalties	254,564	1,488,869
Provision for legal claims and other provisions (Note 22)	247,942	246,127
Communication expenses	238,950	220,737
Travel expenses	91,768	126,180
Marketing expenses	77,363	63,038
Representation expenses	44,141	27,022
Loss on disposal of inventory	11,097	–
Other expenses	269,872	262,866
	7,022,437	**8,309,945**

10. Finance income and finance expenses

	2015	*2014*
	AMD'000	*AMD'000*
Interest income	190,310	189,897
Foreign exchange gain, net	3,428,537	–
	3,618,847	**189,897**
Interest expense	6,321,252	6,790,665
Foreign exchange loss, net	–	5,282,612
	6,321,252	**12,073,277**

11. Income tax

The major components of income tax expense are:

	2015	*2014*
	AMD'000	*AMD'000*
Current income tax		
Current income tax expense	1,923,869	–
Deferred tax		
Relating to origination and reversal of temporary differences	1,461,229	825,531
Income tax expense reported in the statement of comprehensive income	**3,385,098**	**825,531**

11. Income tax (continued)

	2015	*2014*
	AMD'000	*AMD'000*
Accounting profit/(loss) before tax	**24,392,434**	**(9,851,396)**
At Armenia's statutory income tax rate of 20% (2014: 20%)	**4,878,487**	**(1,970,279)**
Net foreign exchange differences	(685,707)	1,056,522
Change in unrecognized deferred tax assets	(2,410,034)	643,514
Non-deductible interest expenses	–	387,909
Adjustment of prior year loss carried forward	1,648,840	–
Other non-deductible (income)/expenses	(46,488)	707,865
Total	**3,385,098**	**825,531**

Deferred tax

Deferred tax relates to the following:

	1 January 2014	*Origination and reversal of temporary differences in the statement of comprehen-sive income*	*Origination and reversal of temporary differences in equity*	*31 December 2014*	*Origination and reversal of temporary differences in the statement of comprehen-sive income*	*Origination and reversal of temporary differences in equity*	*31 December 2015*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*
Loss carry forward	3,094,368	643,514	–	3,737,882	(3,737,882)	–	–
Intangible assets	50,663	12,579	–	63,242	13,964	–	77,206
Inventories	55,682	(5,853)	–	49,829	162,717	–	212,546
Trade receivables	422,917	(14,751)	–	408,166	535,490	–	943,656
Other assets	14,527	2,361	–	16,888	(191)	–	16,697
Trade and other payables	529,810	(126,404)	–	403,406	(94,518)	–	308,888
Deferred tax assets	**4,167,967**	**511,446**	**–**	**4,679,413**	**(3,120,420)**	**–**	**1,558,993**
Property, plant and equipment	(2,729,767)	(944,896)	–	(3,674,663)	(790,371)	–	(4,465,034)
Loans and borrowings	91,094	251,433	(50,112)	292,415	39,528	(1,878,369)	(1,546,426)
Deferred tax liabilities	**(2,638,673)**	**(693,463)**	**(50,112)**	**(3,382,248)**	**(750,843)**	**(1,878,369)**	**(6,011,460)**
Net deferred tax assets/(liabilities)	**1,529,294**	**(182,017)**	**(50,112)**	**1,297,165**	**(3,871,263)**	(1,878,369)	**(4,452,467)**
Impairment of deferred tax asset	(1,766,520)	(643,514)	–	(2,410,034)	2,410,034	–	–
Deferred tax (liabilities)/assets	**(237,226)**	**(825,531)**	**(50,112)**	**(1,112,869)**	**(1,461,229)**	(1,878,369)	**(4,452,467)**

12. Property, plant and equipment

	Land, buildings and structures	*Transfer devices*	*Equipment*	*Transport vehicles*	*Construction in progress*	*Other*	*Total*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*
Cost							
At 1 January 2014	**35,132,376**	**185,140,278**	**160,501,389**	**4,434,536**	**8,502,931**	**9,049,083**	**402,760,593**
Additions	35,825	224,915	128,236	6,820	6,384,498	25,820	**6,806,114**
Disposals	(30,526)	(203,366)	(890,161)	(92,367)	(7,845)	(214,580)	**(1,438,845)**
Transfers	454,635	4,118,300	2,369,115	122,363	(7,528,778)	464,365	**–**
At 31 December 2014	**35,592,310**	**189,280,127**	**162,108,579**	**4,471,352**	**7,350,806**	**9,324,688**	**408,127,862**
Additions	23,163	206,057	119,422	2,835	6,572,801	38,825	**6,963,103**
Disposals	(95)	(243,974)	(163,354)	(412)	(239,221)	(260,006)	**(907,062)**
Transfers	301,124	2,676,335	1,552,193	36,824	(5,070,985)	504,509	**–**
At 31 December 2015	**35,916,502**	**191,918,545**	**163,616,840**	**4,510,599**	**8,613,401**	**9,608,016**	**414,183,903**
Depreciation and impairment losses							
At 1 January 2014	**(22,321,201)**	**(150,547,662)**	**(115,169,044)**	**(2,791,033)**	**(567,134)**	**(6,071,707)**	**(297,467,781)**
Depreciation charge	(453,376)	(2,285,297)	(2,486,185)	(321,222)	–	(373,056)	**(5,919,136)**
Disposals	30,199	162,788	795,083	87,390	21,508	1,951	**1,098,919**
Transfers	238	(749)	(215)	260	-	466	**–**
At 31 December 2014	**(22,744,140)**	**(152,670,920)**	**(116,860,361)**	**(3,024,605)**	**(545,626)**	**(6,442,346)**	**(302,287,998)**
Depreciation charge	(466,912)	(2,442,967)	(2,571,533)	(310,261)	–	(322,647)	**(6,114,320)**
Disposals	(3,095)	159,535	16,900	412	37,513	64,397	**275,662**
Transfers	(859)	710	(1,467)	–	–	1,616	**–**
At 31 December 2015	**(23,215,006)**	**(154,953,642)**	**(119,416,461)**	**(3,334,454)**	**(508,113)**	**(6,698,980)**	**(308,126,656)**
Net book value							
At 1 January 2014	**12,811,175**	**34,592,616**	**45,332,345**	**1,643,503**	**7,935,797**	**2,977,376**	**105,292,812**
At 31 December 2014	**12,848,170**	**36,609,207**	**45,248,218**	**1,446,747**	**6,805,180**	**2,882,342**	**105,839,864**
At 31 December 2015	**12,701,496**	**36,964,903**	**44,200,379**	**1,176,145**	**8,105,288**	**2,909,036**	**106,057,247**

As at 31 December 2015, 31 December 2014 and 1 January 2014, net book value of property, plant and equipment temporarily not in use is AMD 1,055,767 thousand, AMD 1,007,452 thousand and AMD 1,301,267 thousand, respectively. As at 31 December 2015, the book value of fully depreciated property, plant and equipment is AMD 1,392,636 thousand (2014: AMD 986,300 thousand).

13. Intangible assets

	Software
	AMD'000
At 1 January 2014	**2,059,158**
Additions	123,679
At 31 December 2014	**2,182,837**
Additions	162,068
Disposals	(9,315)
At 31 December 2015	**2,335,590**
Amortization	
At 1 January 2014	**(1,080,986)**
Charge for the year	(237,076)
At 31 December 2014	**(1,318,062)**
Charge for the year	(256,111)
At 31 December 2015	**(1,574,173)**
Net book value	
At 1 January 2014	**978,172**
At 31 December 2014	**864,775**
At 31 December 2015	**761,417**

14. Inventories

	2015	*2014*
	AMD'000	*AMD'000*
Materials and operating supplies	2,324,147	4,474,750
Construction materials and spare parts	387,238	336,924
Instruments, work uniform	167,243	161,718
Fuel	70,344	120,862
Other	82,224	73,823
Total inventories	**3,031,196**	**5,168,077**

15. Prepayments for non-current assets

	AMD'000
Total prepayments for non-current assets at 1 January 2014	**149,144**
Additions	362,639
Prepayments transferred to property, plant and equipment	(375,507)
Total prepayments for non-current assets at 31 December 2014	**136,276**
Additions	62,600
Prepayments transferred to property, plant and equipment	(60,270)
Total prepayments for non-current assets at 31 December 2015	**138,606**

16. Trade and other receivables

	2015	*2014*
	AMD'000	*AMD'000*
Current		
Trade receivables		
Entities	22,120,637	16,628,044
Households	12,608,194	11,346,802
Receivables subsidized by Tashir Charity Foundation	1,725,407	–
Receivables subsidized by the Government	18,920	–
Other receivables	882,587	641,414
Less – impairment loss provision	(6,293,496)	(5,702,550)
Current financial assets within trade and other receivables	**31,062,249**	**22,913,710**
Tax	2,190,748	431,807
VAT recoverable	1,778,977	2,217,967
Prepayments	155,592	588,287
Total current trade and other receivables	**35,187,566**	**26,151,771**

Trade receivables are non-interest bearing and are generally on 30-60 day terms. The major part of trade and other receivables is presented in Armenian drams.

Movement in impairment loss provision

	Trade receivables		*Other receivables*		
	Individually impaired	*Collectively impaired*	*Individually impaired*	*Collectively impaired*	*Total*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*
Current portion					
At 1 January 2014	**(2,003,337)**	**(3,796,907)**	**(268,909)**	**–**	**(6,069,153)**
Reversal/ (charge) of impairment loss provision during the year, net	(113,959)	545,130	(64,568)	–	**366,603**
At 31 December 2014	**(2,117,296)**	**(3,251,777)**	**(333,477)**	**–**	**(5,702,550)**
Reversal/ (charge) of impairment loss provision during the year, net	(864,473)	302,474	(28,947)	–	**(590,946)**
At 31 December 2015	**(2,981,769)**	**(2,949,303)**	**(362,424)**	**–**	**(6,293,496)**

As at 31 December, the aging analysis of trade receivables is as follows:

		Neither past due nor	*Past due but not individually impaired*				
	Total	*impaired*	*< 30 days*	*30-60 days*	*61-90 days*	*91-120 days*	*> 120 days*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*
2015	**31,062,249**	24,224,689	1,165,340	598,895	1,123,534	1,367,505	2,582,286
2014	**22,913,710**	18,718,087	953,212	571,338	814,245	675,858	1,180,970

As at 31 December 2015, the amount of individually impaired trade and other receivables less impairment loss provision is nil (2014: nil).

17. Cash and cash equivalents

	2015 AMD'000	2014 AMD'000
Cash in transit	1,219,405	1,518,793
Bank balances payable on demand	215,397	1,031,316
Cash on hand	277	3
	1,435,079	**2,550,112**

As at 31 December 2015 and 31 December 2014, cash and cash equivalents comprised:

	2015 AMD'000	2014 AMD'000
Armenian drams	1,434,950	2,550,007
Russian rubles	86	105
US dollars	43	–
	1,435,079	**2,550,112**

18. Other assets

	2015 AMD'000	2014 AMD'000
Non-current		
Promissory note	3,592	3,281
	3,592	**3,281**
Current		
Restricted cash for repayment of loans	–	923,664
Loans granted	2,567	–
	2,567	**923,664**

In accordance with the covenants of the loan agreements with European Bank for Reconstruction and Development (EBRD) and State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank), the Company was obliged to open a debt service reserve account at VTB Bank Armenia CJSC to serve the loan related payments to EBRD and Vnesheconombank. The Company has no legal right to withdraw cash from the debt reserve account without the written consent of EBRD. As at 31 December 2015 and 31 December 2014, balance of the account was AMD 1,633,977 thousand and AMD 923,664 thousand, respectively. As at 31 December 2015, the total balance of this account was offset against the respective liability (Note 25).

19. Share capital

As at 31 December 2015 and 2014, the number of ordinary shares with par value of AMD 75,700 per share totaled to 246,423 shares.

20. Additional paid-in capital

As at 31 December 2015, the additional paid-in capital of AMD 46,985,333 thousand (2014: AMD 39,471,856 thousand) resulted from the following capital transactions:

- AMD 7,207,484 thousand recognized as capital contribution upon derecognition of amounts payable to the state budget against taxes and mandatory social security payments in accordance with the Law on Privatization of four state-owned regional electricity distribution companies (Yerevan Electric Network CJSC, Northern Electric Network CJSC, Southern Electric Network CJSC and Central Electric Network CJSC) in 2002;
- AMD 824,310 thousand recognized as capital contribution upon receipt of benefits (the right to set-off various payables) from the Republic of Armenia Government based on the Law on Privatization of four state-owned regional electricity distribution companies (Yerevan Electric Network CJSC, Northern Electric Network CJSC, Southern Electric Network CJSC and Central Electric Network CJSC) in 2002;
- AMD 31,239,613 thousand recognized as capital contribution upon transfer of the receivables and payables as at the privatization date (31 October 2002) to the Company based on the Law on Privatization of four state-owned regional electricity distribution companies (Yerevan Electric Network CJSC, Northern Electric Network CJSC, Southern Electric Network CJSC and Central Electric Network CJSC) in 2002;
- AMD 200,449 thousand recognized as a contribution to additional-paid-in capital as a difference between the fair value of the borrowing from entity under common control upon initial recognition and its nominal amount, net of deferred tax in the amount of AMD 50,112 thousand as at 31 December 2015 and 31 December 2014; and
- AMD 7,513,477 thousand recognized as a contribution to additional-paid-in capital as a difference between the fair value of the borrowing from entity under common control upon initial recognition and its nominal amount, net of deferred tax in the amount of AMD 1,878,369 thousand as at 31 December 2015.

21. Loans and borrowings

	2015	***2014***
	AMD'000	***AMD'000***
Non-current		
Unsecured borrowings from related parties	18,288,290	31,003,142
Loans from international financial institutions	5,455,584	8,952,717
Bank loans secured by guarantees and collateral property, plant and equipment	2,923,509	6,315,743
Unsecured Government loans	6,121,959	6,359,946
Unsecured bank loans	9,191,250	154,366
	41,980,592	**52,785,914**
Current		
Unsecured bank loans	9,280,800	26,445,920
Unsecured borrowings from related parties	6,666,824	7,048,845
Bank loans secured by guarantees and collateral of property, plant and equipment	1,544,932	4,442,574
Loans from international financial institutions	1,229,510	3,164,482
Unsecured Government loans	919,808	922,051
Unsecured borrowings from other companies	4,513	4,506
	19,646,387	**42,028,378**
Total loans and borrowings	**61,626,979**	**94,814,292**

As at 31 December 2015, the Company had no bank loans collateralized by property, plant and equipment (2014: secured bank loans were collaterized by buildings carried at AMD 387,840 thousand and by cash turnover of current accounts held with several Armenian banks).

21. Loans and borrowings (continued)

Revolving credit lines

During the reporting period, the Company has had revolving credit lines, which were secured by the turnover of accounts in lender banks. At the end of the reporting year, there were outstanding revolving credit lines borrowed from VTB Armenia Bank CJSC, Ardshininvestbank CJSC and Armbusinessbank CJSC.

The table below shows balances on outstanding revolving credit lines that the Company had as at 31 December 2015:

Name of lender	*Currency*	*Contractual amount in thousand units of currency*	*Year of maturity*	*Redemption terms*	*Interest payment terms*	*Carrying amount in AMD thousand*
VTB Armenia Bank CJSC	AMD	1,800,000	2016	In 90 days after withdrawal	Monthly	154,692
VTB Armenia Bank CJSC	AMD	1,200,000	2016	In 90 days after withdrawal	Monthly	1,202,038
Ardshininvestbank CJSC	USD	4,000	2016	At each stage-end (90 days)	Monthly	1,943,482
Armbusinessbank CJSC	USD	5,000	2017	On maturity date	Monthly, starting from 1 January 2016	2,431,580
Total						**5,731,792**

Details of loans and borrowing outstanding as at 31 December 2015

Name of lender	*Currency*	**Contractual amount in thousand units of currency**	*Year of maturity*	*Payment of principal*	*Carrying amount in AMD thousand*
Dvin Concern CJSC	AMD	30,000	2016	On maturity date	4,513
EBRD	EUR	42,000	2018	Semiannually	6,685,093
OJSC Inter RAO UES	USD	7,000	2016	On maturity date	23,193
OJSC Inter RAO UES	USD	6,850	2023	On maturity date	2,580,690
OJSC Inter RAO UES	EUR	30,000	2023	On maturity date	19,686,285
Ministry of Finance of RA	JPY	3,410,000	2029	Semiannually	6,699,821
Ministry of Finance of RA	JPY	269,280	2039	Semiannually	341,947
VEB	EUR	22,500	2018	Semiannually	4,468,441
Armeconombank OJSC	USD	5,000	2016	On maturity date	2,420,301
Ameriabank CJSC	USD	5,000	2017	Monthly, starting from 1 September 2016	2,420,430
Ameriabank CJSC	USD	5,000	2018	Monthly, starting from 1 September 2016	2,420,990
Hrazdan Power Company OJSC	EUR	15,000	2023	On maturity date	1,308,216
Ardshininvestbank CJSC	USD	6,000	2016	On maturity date	2,636,648
Ardshininvestbank CJSC	USD	10,000	2016	On maturity date	2,255,138
Ardshininvestbank CJSC	USD	4,000	2017	On maturity date	1,943,481
Total					**55,895,187**

21. Loans and borrowings (continued)

Details of loans and borrowing outstanding as at 31 December 2015 (continued)

	2015	2014
	AMD'000	AMD'000
Non-current		
Borrowings denominated in:		
- Euro	22,778,478	37,671,869
- US dollars	13,080,156	8,754,099
- Japanese yens	6,121,958	6,359,946
- Armenian drams	–	–
Total loans and borrowings, non-current	**41,980,592**	**52,785,914**
Current		
Borrowings denominated in:		
- US dollars	9,303,994	20,959,566
- Armenian drams	1,361,243	10,648,500
- Euro	8,061,341	9,498,261
- Japanese yens	919,809	922,051
Total loans and borrowings, current	**19,646,387**	**42,028,378**
Total loans and borrowings	**61,626,979**	**94,814,292**

22. Provisions

	Provisions for legal claims	Provision for payroll	Provisions for tax risks	Other provisions	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
At 1 January 2014	**605,445**	**1,878,008**	**–**	**–**	**2,483,453**
Utilized during the period	(218,400)	(2,191,536)	–	–	**(2,409,936)**
Unused amounts reversed	(356,945)	–	–	–	**(356,945)**
Charged during the period	11,174	2,180,982	234,953	–	**2,427,109**
At 31 December 2014	**41,274**	**1,867,454**	**234,953**	**–**	**2,143,681**
Utilized during the period	(5,508)	(2,069,677)	–	–	**(2,075,185)**
Unused amounts reversed	–	–	(234,953)	(4,185)	**(239,138)**
Charged during the period	243,757	1,895,382	–	4,185	**2,143,324**
At 31 December 2015	**279,523**	**1,693,159**	**–**	**–**	**1,972,682**

23. Government grants

	2015	2014
	AMD'000	AMD'000
Non-current		
Benefit from Government loan at a reduced interest rate	4,402,726	4,645,986
Granted property, plant and equipment	86,383	93,172
Government grants, non-current portion	**4,489,109**	**4,739,158**
Current		
Benefit from Government loan at a reduced interest rate	237,218	237,214
Granted property, plant and equipment	6,928	7,067
Government grants, current portion	**244,146**	**244,281**
Total Government grants	**4,733,255**	**4,983,439**

23. Government grants (continued)

	2015 AMD'000	2014 AMD'000
At 1 January	**4,983,439**	**5,232,722**
Disposed	–	911
Released to the statement of comprehensive income	(250,184)	(250,194)
At 31 December	**4,733,255**	**4,983,439**

24. Trade and other payables

	2015 AMD'000	2014 AMD'000
Non-current		
Commitments to purchase property, plant and equipment	68,015	68,758
Trade and other payables, non-current	**68,015**	**68,758**
Current		
Trade payables	35,516,638	30,765,802
Commitments to purchase property, plant and equipment	1,381,257	2,671,455
Total financial liabilities within current trade and other payables	**36,897,895**	**33,437,257**
Prepayments received from customers	1,335,723	1,313,447
Taxes payable	1,187,894	410,458
Accrued employee benefit expense	825,483	839,215
Other trade and other payables	443,567	111,201
Prepaid Government grants	225,426	–
Total current trade and other payables	**40,915,988**	**36,111,578**

Trade and other payables are normally settled within 60-90 days.
The main part of trade and other payables is typically denominated in Armenian drams.

25. Offsetting of financial instruments

The tables below show financial assets offset against financial liabilities in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that do not result in an offset in the statement of financial position:

2015	Gross amount of recognized financial assets/ liabilities	Gross amount of recognized financial assets offset in the statement of financial position	Net amount of financial assets/ liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Other current assets	1,636,544	(1,633,977)	2,567	–	–	2,567
Total	**1,636,544**	**(1,633,977)**	**2,567**	**–**	**–**	**2,567**
Financial liabilities						
Loans and borrowings	63,260,956	(1,633,977)	61,626,979	–	–	61,626,979
Total	**63,260,956**	**(1,633,977)**	**61,626,979**	**–**	**–**	**61,626,979**

25. Offsetting of financial instruments (continued)

2014	*Gross amount of recognized financial assets/ liabilities*	*Gross amount of recognized financial assets offset in the statement of financial position*	*Net amount of financial assets/ liabilities presented in the statement of financial position*	*Related amounts not offset in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets						
Other current assets	923,664	–	923,664	(923,664)	–	–
Total	**923,664**	**–**	**923,664**	**(923,664)**	**–**	**–**
Financial liabilities						
Loans and borrowings	94,814,292	–	94,814,292	(923,664)	–	**93,890,628**
Total	**94,814,292**	**–**	**94,814,292**	**(923,664)**	**–**	**93,890,628**

26. Related party disclosures

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Company's shareholders are disclosed in Note 1. Other related parties represent entities under control of the government of Russian Federation. Tariffs for sales to and purchases from the related parties are regulated by the Public Services Regulation Committee.

At 31 December 2015 and 2014, the transaction values and the outstanding balances with the related parties were as follows:

(i) Revenues

	Transaction values 2015	*Receivables 2015*	*Transaction values 2014*	*Receivables 2014*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*
Electricity distribution				
Entities related to the shareholders	2,114,995	1,760,535	515,679	25,261
Other entities under common control	1,900,046	238,851	1,812,680	248,785
	4,015,041	**1,999,386**	**2,328,359**	**274,046**

(ii) Expenses

	Transaction values 2015	*Outstanding balance 2015*	*Transaction values 2014*	*Outstanding balance 2014*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*
Purchased power				
Entities related to the shareholders	21,365,476	3,087,407	31,905,158	4,804,223
Other entities under common control	11,556,297	353,337	17,025,581	4,395,769
Other expenses				
Entities related to the shareholders	31,993	3,989	29,497	4,568
Other entities under common control	204,355	73,549	202,806	4
	33,158,121	**3,518,282**	**49,163,042**	**9,204,564**

26. Related party disclosures (continued)

(iii) Loans

	Transaction values 2015	*Outstanding balance 2015*	*Transaction values 2014*	*Outstanding balance 2014*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*
Loans received				
Shareholders	–	17,723,138	–	19,152,735
Entities related to the shareholders	–	1,119,112	1,229,070	1,424,910
Other	33,468,509	1,354,281	22,460,123	15,793,074
Interest payable				
Shareholders	1,764,696	14,062,993	1,899,393	13,201,717
Entities related to the shareholders	142,468	189,104	1,229,070	43,893
Other	717,498	2,449	350,507	32,750
	36,093,171	**34,451,077**	**27,168,163**	**49,649,079**

Compensation of key management personnel of the Company

	2015	*2014*
	AMD'000	*AMD'000*
Short-term employee benefits	445,425	620,294

27. Commitments and contingencies

Operating lease commitments

The Company has entered into commercial leases on certain motor vehicles and items of machinery. These leases have an average life of between one and five years with no renewal option included in the contracts. Terms of commercial lease of land and premises exceed five years. There are no restrictions placed upon the Company by entering into these leases.

Future minimum lease payments under non-cancellable leases as at 31 December are as follows:

	2015	*2014*
	AMD'000	*AMD'000*
Within one year	331,394	408,769
After one year but not more than five years	81,847	244,827
More than five years	54,100	46,388
Total operating lease commitments	**467,341**	**699,984**

Capital investment commitments

As at 31 December 2015, the Company's commitments related to connecting new subscribers to the electricity network amount to AMD 1,525,807 thousand (31 December 2014: AMD 2,176,574 thousand).

Operating environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

27. Commitments and contingencies (continued)

Legal

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

Taxation

Armenian tax, currency and customs legislation is subject to varying interpretations, and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. The tax authorities may take a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

According to the changes in the Armenian tax legislation which came in force on 1 January 2013, social contributions were canceled and a new scale for income tax calculation was introduced.

As at 31 December 2015, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

Sales and purchase commitments

As required by the state authorities and regulatory bodies, the Company has a commitment to export electricity to Artsakh (Nagorno-Karabakh). The regulatory authorities require the Company to purchase electricity from specified suppliers. The amounts and timing are determined by the regulatory commission on an ongoing and annual basis.

Environmental matters

Management believes that the Company is in compliance with governmental requirements concerning environmental matters, and therefore believes that the Company does not have any current material environmental liabilities. However, environmental legislation in the Republic of Armenia is relatively new and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

28. Financial risk management objectives and policies

The Company's principal financial liabilities comprise loans and borrowings, trade payables. The main purpose of these financial liabilities is to finance the Company's operations including capital investments.

The Company has trade and other receivables, cash and cash equivalents, restricted cash and short-term deposits, which relate directly to its operations.

The Company is exposed to market risk, credit risk and liquidity risk.

28. Financial risk management objectives and policies (continued)

The policies for managing each of these risks are summarized below.

Market risk

The Company is exposed to market risks. Market risks predominately relate to the tariffs that are imposed on the Company and affect the price of electricity purchased and the price that can be charged to subscribers for electricity consumed. While the Company may influence certain tariffs, tariffs as such are beyond the Company's control; political factors also play a part in the finalization of these tariffs. Due to the nature of the Company's operations, the Company has limited number of suppliers from which it can purchase electricity for onward transmission to subscribers. In addition, the Company has open positions in interest rate and currency instruments, which are exposed to general and specific market movements. The Company sets limits on the value of risks that can be accepted, which are monitored regularly as required. However, the use of this approach does not prevent losses exceeding these limits in the event of more significant market movements.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. The Company manages its interest rate risk by having a balanced portfolio of fixed and floating rate loans and borrowings.

	Increase/ (decrease) in rate (%)	*Effect on profit before tax*
		AMD'000
2015		
Loans denominated in		
Euro	0.25	(31,969)
US dollar	–	–
Euro	(0.25)	31,969
US dollar	–	–
2014		
Loans denominated in		
Euro	0.07	(13,036)
US dollar	–	–
Euro	(0.07)	13,036
US dollar	–	–

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

28. Financial risk management objectives and policies (continued)

Foreign currency sensitivity

	Change in rate, (%)	*Effect on profit before tax AMD'000*
2015		
Euro	14	(5,669,742)
US dollar	10	(2,385,665)
Russian rubles	30	1,708
Japanese yens	13	(915,430)
Euro	(14)	5,669,742
US dollar	(10)	2,385,665
Russian rubles	(15)	(854)
Japanese yens	(13)	915,430
2014		
Euro	21	(9,629,145)
US dollar	19	(5,621,418)
Russian rubles	22	(12,656)
Japanese yens	16	(1,138,991)
Euro	(20)	9,629,145
US dollar	(20)	5,621,418
Russian rubles	(22)	12,656
Japanese yens	(16)	1,138,991

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities.

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored. As at 31 December 2015, the Company had 14 customers (2014: 14 customers) that owed the Company more than AMD 100,000 thousand each and accounted for approximately 16% (2014: 28%) of receivables owing. The requirement for an impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are categorized into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets.

Surplus cash balances are placed in financial institutions, which are considered at the time of deposit to have a minimal risk of default.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. An access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

28. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2015	*On demand and less than 1 month*	*From 1 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*More than 5 years*	*Total*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*
Interest-bearing loans and borrowings	4,908,189	9,642,166	4,621,919	23,969,356	51,592,004	**94,733,634**
Trade and other payables	30,032,314	5,484,323	1,381,257	–	68,015	**36,965,909**
	34,940,503	**15,126,489**	**6,003,176**	**23,969,356**	**51,660,018**	**131,699,542**

Year ended 31 December 2014	*On demand and less than 1 month*	*From 1 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*More than 5 years*	*Total*
	AMD'000	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*
Interest-bearing loans and borrowings	77,518,590	17,438,221	12,415,024	26,112,438	64,402,078	**197,886,351**
Trade and other payables	25,482,655	5,283,147	2,671,455	–	68,758	**33,506,015**
	103,001,245	**22,721,368**	**15,086,479**	**26,112,438**	**64,470,836**	**231,392,366**

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. For the purpose of retaining or changing the capital structure, the Company can regulate the amount of dividend payments, distribute capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

Fair value of financial instruments

Fair value of financial instruments is included in the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets are measured at amortized cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Financial liabilities are measured at amortized cost. The fair value of liabilities is determined using appropriate valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity is based on expected cash flows discounted at current interest rate for new instruments with similar credit risk and remaining maturity. The fair value of financial instruments approximates their carrying amounts.

28. Financial risk management objectives and policies (continued)

Fair value of financial instruments (continued)

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: Valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data.

No transfers have occurred between Levels in the fair value hierarchy during the reporting period.

Fair value hierarchy

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

2015	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total fair value*
Assets measured at fair value				
	–	–	–	**–**
Total	**–**	**–**	**–**	**–**
Assets for which fair values are disclosed				
Cash and cash equivalents	1,435,079	–	–	**1,435,079**
Trade and other receivables	–	–	31,062,249	**31,062,249**
Total	**1,435,079**	**–**	**31,062,249**	**32,497,328**
Liabilities for which fair values are disclosed				
Loans and borrowings			61,626,979	**61,626,979**
Trade and other payables	–	–	36,965,910	**36,965,910**
Total	**–**	**–**	**98,592,889**	**98,592,889**

28. Financial risk management objectives and policies (continued)

Fair value hierarchy (continued)

2014	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total fair value*
Assets measured at fair value				
	–	–	–	**–**
Total	**–**	**–**	**–**	**–**
Assets for which fair values are disclosed				
Cash and cash equivalents	2,550,112	–	–	**2,550,112**
Trade and other receivables	–	–	22,913,710	**22,913,710**
Total	**2,550,112**	**–**	**22,913,710**	**25,463,822**
Liabilities for which fair values are disclosed				
Loans and borrowings			94,814,292	**94,814,292**
Trade and other payables	–	–	33,506,015	**33,506,015**
Total	**–**	**–**	**128,320,307**	**128,320,307**

29. Events after the reporting date

In February 2016, the Company entered into a revolving credit line agreement for up to USD 15 million with an Armenian bank. The credit line matures on 31 March 2017