

Independent auditor's report

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To the Board of Trustees of Fund for Rural Economic Development in Armenia

Opinion

We have audited the financial statements of Fund for Rural Economic Development in Armenia (the “Fund”), which comprise the statement of financial position as of December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using

the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Gagik Gyulbudaghyan

Managing Partner

April 26, 2017



Lilit Arabajyan, FCCA

Engagement Partner



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Statement of financial position

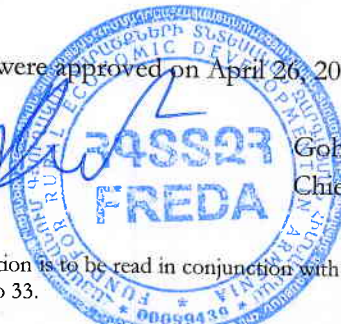
In thousand drams	Note	As of December 31, 2016	As of December 31, 2015
Assets			
<i>Non-current assets</i>			
Property and equipment		334	1,239
Intangible assets		6	-
Deferred income tax assets	4	54,319	76,234
Investments in projects	5	139,322	160,119
Loans given	6	602,257	373,173
Accounts receivable	7	153,617	120,466
		<u>949,855</u>	<u>731,231</u>
<i>Current assets</i>			
Inventories		106	981
Current income tax receivables		13,087	-
Investments in projects	5	1,206	1,792
Loans given	6	23,983	155,701
Accounts receivable	7	47,098	45,655
Cash and cash equivalents	8	175,381	589,785
		<u>260,861</u>	<u>793,914</u>
Total assets		<u><u>1,210,716</u></u>	<u><u>1,525,145</u></u>
<i>Non-current liabilities</i>			
Long-term borrowings	9	679,780	632,545
Grants related to assets	10	50,409	61,042
		<u>730,189</u>	<u>693,587</u>
<i>Current liabilities</i>			
Short-term portion of long-term borrowings	9	41,840	39,113
Grants related to income	11	108,794	132,626
Trade and other payables	12	5,220	170,763
Current income tax liabilities		-	2,609
		<u>155,854</u>	<u>345,111</u>
<i>Net assets</i>			
Accumulated result		<u>324,673</u>	<u>486,447</u>
Total net assets and liabilities		<u><u>1,210,716</u></u>	<u><u>1,525,145</u></u>

The financial statements were approved on April 26, 2017 by:

Alexander Kalantaryan
 Acting Director

Gohar Hovhannisyan
 Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 33.



Statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended December 31, 2016	Year ended December 31, 2015
Income from investments	13	96,186	81,063
Income from grants received		56,269	20,077
Other income		33,703	7,553
		<u>186,158</u>	<u>108,693</u>
General and administrative expenses	14	(191,095)	(140,374)
Loss from disposal of investments, net		-	(41,002)
Impairment loss	15	(82,233)	(197,111)
		<u>(87,170)</u>	<u>(269,794)</u>
Finance income	16	42,746	94,577
Finance costs	16	(96,599)	(112,553)
Foreign exchange (loss)/gain, net	17	1,164	(16,646)
Loss before income tax		<u>(139,859)</u>	<u>(304,416)</u>
Income tax (expense)/recovery	18	(21,915)	59,339
Total comprehensive loss for the year		<u>(161,774)</u>	<u>(245,077)</u>