Electric Networks of Armenia CJSC

Financial Statements
for 2019

Contents

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Independent Auditors' Report

To the Shareholders of Electric Networks of Armenia CJSC

Opinion

We have audited the financial statements of Electric Networks of Armenia CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) 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 these requirements and the International Code of Ethics. 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as 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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC

KPMG Armenia LLC
22 February 2020

Statement of Financial Position as at 31 December 2019

’000 AMD	Note	31 December 2019	31 December 2018
Assets			
Property and equipment	12	158,822,487	135,047,313
Right of use assets		2,299,947	-
Intangible assets		433,270	626,381
Prepayments for non-current assets	14	1,048,711	189,476
Other non-current assets		3,766	3,798
Non-current assets		**162,608,181**	**135,866,968**
Inventories	13	9,988,872	9,866,593
Current tax assets		-	110,970
Trade and other receivables	15	25,563,949	23,149,085
Prepayments for non-current assets	14	518,339	2,839,663
Cash and cash equivalents	16	4,319,294	3,598,618
Current assets		**40,390,454**	**39,564,929**
Total assets		**202,998,635**	**175,431,897**
Equity			
Share capital		18,654,221	18,654,221
Additional paid-in capital		39,946,077	39,946,077
Retained earnings		18,316,967	6,552,867
Total equity	17	**76,917,265**	**65,153,165**
Liabilities			
Government grants	20	3,526,589	3,759,488
Loans and borrowings	19	48,549,099	59,298,510
Trade and other payables	21	11,243	3,352,522
Deferred tax liabilities	10	5,984,175	5,638,925
Lease liabilities		2,288,027	-
Non-current liabilities		**60,359,133**	**72,049,445**
Government grants	20	244,146	244,145
Loans and borrowings	19	32,604,316	18,180,456
Trade and other payables	21	32,420,589	19,804,686
Current tax liabilities		367,381	-
Lease liabilities		85,805	-
Current liabilities		**65,722,237**	**38,229,287**
Total liabilities		**126,081,370**	**110,278,732**
Total equity and liabilities		**202,998,635**	**175,431,897**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

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 10 to 52.

Statement of Profit or Loss and Other Comprehensive Income for 2019

'000 AMD	Note	2019	2018
Revenue	6	194,062,397	181,411,820
Purchased power	7	(129,534,211)	(120,950,932)
Service fees for electricity transmission		(8,219,606)	(7,723,029)
Wages and salaries		(19,691,176)	(19,260,730)
Depreciation and amortisation		(9,888,559)	(8,791,206)
Repairs and maintenance		(1,305,027)	(1,128,098)
Inventory used		(1,993,773)	(1,872,555)
Impairment loss on trade receivables	22	(74,814)	(34,392)
Other income		684,799	688,884
Other expenses	8	(5,875,402)	(7,034,513)
Results from operating activities		**18,164,628**	**15,305,249**
Finance income	9	810,684	2,081,647
Finance costs	9	(5,058,591)	(5,368,816)
Net finance costs		**(4,247,907)**	**(3,287,169)**
Profit before income tax		**13,916,721**	**12,018,080**
Income tax expense	10	(2,152,621)	(1,265,043)
Profit and total comprehensive income for the year		**11,764,100**	**10,753,037**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

These financial statements were approved by management on 22 February 2020 and were signed on its behalf by:

Karen Harutyunyan
General Director

Nairi Adamyan
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 52.

Statement of Changes in Equity for 2019

’000 AMD	**Share capital**	**Additional paid-in capital**	**Retained earnings**	**Total equity**
Balance at 1 January 2018	18,654,221	39,946,077	(4,200,170)	54,400,128
Total comprehensive income				
Profit for the year	-	-	10,753,037	10,753,037
Total comprehensive income for the year	**-**	**-**	**10,753,037**	**10,753,037**
Balance at 31 December 2018	**18,654,221**	**39,946,077**	**6,552,867**	**65,153,165**
Balance at 1 January 2019	18,654,221	39,946,077	6,552,867	65,153,165
Total comprehensive income				
Profit for the year	-	-	11,764,100	11,764,100
Total comprehensive income for the year	**-**	**-**	**11,764,100**	**11,764,100**
Balance at 31 December 2019	**18,654,221**	**39,946,077**	**18,316,967**	**76,917,265**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 52.

Statement of Cash Flows for 2019

’000 AMD	Note	2019	2018
Cash flows from operating activities			
Profit for the year		11,764,100	10,753,037
Adjustments for:			
Depreciation and amortization		9,888,559	8,791,206
Impairment losses/(reversal)		74,814	34,392
Loss on disposal of property and equipment		671,863	135,707
Write-down of inventories		(15,343)	(12,636)
Amortisation of government grants		(232,898)	(240,587)
Net finance costs		4,247,907	3,287,169
Income tax expense		2,152,621	1,265,043
Changes in:			
Inventories		(106,936)	(2,504,828)
Trade and other receivables		(2,924,493)	2,413,119
Trade and other payables		2,074,731	(982,575)
Cash flow from operations before income taxes and interest paid		**27,594,925**	**22,939,047**
Income tax paid		(1,334,000)	(300,000)
Net cash flows from operating activities		**26,260,925**	**22,639,047**
Cash flows from investing activities			
Acquisition of property and equipment		(25,362,408)	(16,266,236)
Acquisition of intangible assets		(45,412)	(322,432)
Proceeds from sale of property and equipment		151,576	93,788
Placement of bank deposits		-	(14,542,997)
Proceeds from bank deposits		-	14,477,800
Interest received		23,355	558,041
Net cash flows used in investing activities		**(25,232,889)**	**(16,002,036)**
Cash flow from financing activities			
Proceeds from borrowings		154,243,915	124,057,600
Repayment of borrowings		(149,601,272)	(124,124,026)
Interest paid		(4,415,605)	(4,678,660)
Payment of lease liabilities*		(285,400)	-
Net cash flows used in financing activities		**(58,362)**	**(4,745,086)**
Net increase in cash and cash equivalents		**969,674**	**1,891,925**
Cash and cash equivalents at 1 January		3,598,618	1,852,297
Effect of movements in exchange rates on cash and cash equivalents		(248,998)	(145,604)
Cash and cash equivalents at 31 December	16	**4,319,294**	**3,598,618**

* See Notes 5 and 29.

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 52.

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

The Company has classified:

– cash payments for the principal portion of lease payments as financing activities;
– cash payments for the interest portion as financing activities consistent with the presentation of interest payments chosen by the Company; and
– short-term lease payments and payments for leases of low-value assets as operating activities.

The Company has not restated comparative information.

Notes to the Financial Statements for 2019

1. Reporting entity

(a) Organisation and operations

Electric Networks of Armenia CJSC (the "Company") is a closed joint stock company incorporated in the Republic of Armenia.

The Company's registered office is 127 A. Armenakyan Street, Yerevan 0047, Republic of Armenia.

The Company's principal activity is purchase and regulated distribution of electricity to residential and non-residential customers in the Republic of Armenia. The Company has an exclusive license for distribution of electricity within the Republic of Armenia. Tariffs for sold electricity and purchased power are determined by the Public Services Regulatory Commission ("PSRC") of the Republic of Armenia.

At 31 December 2019 the Company is owned by Tashir Capital cjsc (70%) and Liormand Holdings Ltd. (30 %).

The Company is ultimately controlled by a single individual, Mr. Samvel Karapetyan. Related party transactions are disclosed in Note 26.

(b) Armenian business environment

The Company's operations are located in Armenia. Consequently, the Company is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2. Basis of accounting

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

This is the first set of the Company's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 5.

(b) Going concern

As at 31 December 2019 the Company's current liabilities exceeded its current assets by AMD 25,331,783 thousand. However, the Company's profit before income tax and cash flows from operating activities for the year ended 31 December 2019 amounted to AMD 13,916,721 thousand and AMD 26,260,925 thousand, respectively, and the management expects the Company to continue making profits and generate sufficient cash flows in future years to settle liabilities as they fall due.

Considering the above facts, management believes that there are no significant uncertainties regarding the ability of the Company to continue as a going concern.

3. Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram (“AMD”), which is the Company’s functional currency and the currency in which these financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 22(c) – measurement of ECL allowances for trade receivables.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 22 – financial instruments.

5. Changes in significant accounting policies

IFRS 16

The Company initially applied IFRS 16 Leases from 1 January 2019.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 29(m).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

As a lessee, the Company leases many assets including land, property and transport vehicles. The Company previously classified leases as operating leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for part of these leases – i.e. these leases are on-balance sheet.

(i) Leases classified as operating leases under IAS 17

Previously, the Company classified land, property and transport vehicle leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019 (see Note 5 d(i)). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all its leases.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

(c) As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Company does not have sub-leases.

(d) Impact on financial statements

(i) Impact on transition*

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities as summarised below.

’000 AMD	**1 January 2019**
Right-of-use assets – property and equipment	2,350,773
Lease liabilities	2,350,773

* For the impact of IFRS 16 on profit or loss for the period, see Note 23(a). For the impact of IFRS 16 on EBITDA see Note 11. For the details of accounting policies under IFRS 16 and IAS 17, see Note 29(m).

When measuring lease liabilities for leases that were classified as operating leases, the Compnay discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 9.4%.

A number of other new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Company’s financial statements, except the one described above.

6. Revenue

(a) Revenue streams

The Company generates revenue primarily from the regulated distribution and sale of electric energy. Other sources of revenue include income from network connection activities.

’000 AMD	**2019**	**2018**
Revenue from contracts with customers	192,776,198	180,146,941
Other revenue		
Network connection activities	1,286,199	1,264,879
Total revenue	**194,062,397**	**181,411,820**

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical regions, major products and service lines, type of customer and timing of revenue recognition.

For the year ended 31 December	**Legal entities**		**Households**		**Total**	
’000 AMD	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Primary geographical regions of electricity sales						
Yerevan	51,420,345	47,627,017	34,598,728	32,262,237	86,019,073	79,889,254
Syunik	19,459,140	18,503,332	2,878,425	2,763,957	22,337,565	21,267,289
Ararat	11,966,705	11,577,042	6,799,416	6,332,439	18,766,121	17,909,481
Kotayk	10,480,287	9,317,101	7,241,915	6,776,009	17,722,202	16,093,110
Armavir	6,371,465	6,012,524	6,565,617	6,049,551	12,937,082	12,062,075
Lori	6,138,397	4,143,167	4,171,218	4,180,220	10,309,615	8,323,387
Shirak	3,074,340	2,914,923	3,843,223	3,925,088	6,917,563	6,840,011
Gegharkunik	2,920,130	2,743,471	3,186,295	3,266,291	6,106,425	6,009,762
Aragatsotn	2,516,916	2,401,475	2,584,736	2,499,453	5,101,652	4,900,928
Tavush	2,213,823	2,118,193	1,956,422	1,971,195	4,170,245	4,089,388
Vayots Dzor	1,020,319	967,927	1,045,067	1,038,874	2,065,386	2,006,801
Other	323,269	755,455	-	-	323,269	755,455
	117,905,136	**109,081,627**	**74,871,062**	**71,065,314**	**192,776,198**	**180,146,941**
Major service lines						
Sale of electric power	117,905,136	109,081,627	74,871,062	71,065,314	192,776,198	180,146,941
Network connection activity	445,080	546,729	841,119	718,150	1,286,199	1,264,879
	118,350,216	**109,628,356**	**75,712,181**	**71,783,464**	**194,062,397**	**181,411,820**
Timing of revenue recognition						
Products and services transferred over time	118,350,216	109,628,356	75,712,181	71,783,464	194,062,397	181,411,820
Revenue from contracts with customers	**118,350,216**	**109,628,356**	**75,712,181**	**71,783,464**	**194,062,397**	**181,411,820**

(c) Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

’000 AMD	Note	31 December 2019	31 December 2018
Receivables, which are included in ‘trade and other receivables’	15	23,385,489	21,287,807
Contract liabilities		(1,964,827)	(1,471,333)

The contract liabilities relate to the advance consideration received from customers for connecting customers to power network of AMD 1,470,929 thousand (2018: AMD 904,034 thousand), for which revenue is recognised over time of power supply contract, and advance consideration received from customers for the supply of electricity of AMD 493,898 thousand (2018: AMD 567,299 thousand).

The amount of AMD 1,056,664 thousand recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2019.

No information is provided about remaining performance obligations at 31 December 2019 that have an original expected duration of one year or less, as allowed by IFRS 15.

(d) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Sale of electric energy	The Company’s promise to customers is to supply electricity and the consideration for the electricity is determined based on customer’s monthly consumption. Payment terms are defined in “Electricity supply and usage rules” (ESUR) set by industry regulator Public Services Regulatory Commission’s (PSRC), according to which the Company should post relevant consumption information (monthly consumption quantities and total bill to be paid) for each consumer in the publicly available means by 10th of the month following the reporting month, after which the consumers should make cash payments in the 7-day period. No discounts are provided.	Customers simultaneously receive and consume the benefits of electricity supply as it is provided and the Company transfers control of the service over time, and therefore, satisfies a performance obligation and recognizes revenue over time. The variable consideration, which represents units of consumed electricity multiplied by the then effective tariffs, is measured by the data taken from meter readers at the end of each calendar month.
Connection to power network	The Company performs activities related to connecting its customers to the power network. Payment terms are defined in “Electricity supply and usage rules” (ESUR) set by industry regulator Public Services Regulatory Commission’s (PSRC), according to which 50% of the fees are paid in advance and the rest when the connection activity is completed. The length of each project depends on the network voltage and does not exceed 270 days per maximum terms set by the Regulator.	The activities related to the network connection do not result in the transfer of goods or services to Customers and as such are set-up activities. Thus, revenue is recognized over the electricity supply contract term. Advances received are included in contract liabilities.

7. Purchased power

’000 AMD	**2019**	**2018**
Electricity for distribution	83,244,608	77,867,844
Available capacity	46,289,603	43,083,088
	129,534,211	**120,950,932**

Available capacity represents the generating capacity to meet demand for electricity within a short interval of time.

8. Other expenses

’000 AMD	**2019**	**2018**
Donations	916,167	1,809,223
Collection fees and bank charges	876,008	883,608
Other administrative fees	699,762	737,076
Loss on disposal of property and equipment	671,863	140,770
Taxes, other than on income	554,801	774,000
Lease expense (2018: rent)	265,625	427,588
Professional services	262,470	174,874
Communication	230,761	233,759
Other employee benefits	230,209	264,933
Security	188,903	188,054
Fines and penalties	127,479	160,313
Advertising expenses	126,964	128,504
Travel	107,757	77,969
Transportation expenses	97,441	185,635
Representative expenses	49,891	52,414
Other	469,301	795,793
	5,875,402	**7,034,513**

9. Net finance costs

See accounting policies in Notes 29(c) and 29(i). The effect of initially applying IFRS 16 is described in Note 5.

’000 AMD	**2019**	**2018**
Interest income under the effective interest method	23,355	542,500
Total interest income arising from financial assets measured at amortised cost	**23,355**	**542,500**
Net foreign exchange gain	787,329	1,539,147
Finance income – other	**787,329**	**1,539,147**
Financial liabilities measured at amortised cost – interest expense	(5,058,591)	(5,368,816)
Finance costs – other	**(5,058,591)**	**(5,368,816)**
Net finance costs recognised in profit or loss	**(4,247,907)**	**(3,287,169)**

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

10. Income taxes

(a) Amounts recognised in profit or loss

The Company's applicable tax rate is the income tax rate of 20% (2018: 20%).

'000 AMD	**2019**	**2018**
Current tax expense		
Current tax	1,807,371	1,789,152
Over-provided in prior years	-	(87,755)
Deferred tax expense		
Origination and reversal of temporary differences	345,250	(436,354)
Total tax expense	**2,152,621**	**1,265,043**

Reconciliation of effective tax rate:

	2019		**2018**	
	'000 AMD	**%**	**'000 AMD**	**%**
Profit before income tax	13,916,721	100	12,018,080	100
Income tax at applicable tax rate	2,783,344	20	2,403,616	20
Change in applicable tax legislation	-	-	(1,166,213)	(10)
Over-provided in prior years	-	-	(87,755)	(1)
Reduction in tax rate*	(664,908)	(5)	-	-
Non-deductible expenses	34,185	0	115,395	**1**
	2,152,621	**15**	**1,265,043**	**10**

* The amount recognised represent the effect of reduction in the income tax rate from 20% to 18% according to changes in the RA tax legislation, with effective date of 1 January 2020.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
’000 AMD	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Property and equipment	-	-	7,269,232	6,948,420	7,269,232	6,948,420
Right of use assets	-	-	413,991	-	413,991	-
Intangible assets	(96,323)	(117,068)	-	-	(96,323)	(117,068)
Inventories	-	(166,509)	111,697	-	111,697	(166,509)
Trade and other receivables	(784,115)	(474,315)	-	-	(784,115)	(474,315)
Other assets	(14,864)	(16,655)	-	-	(14,864)	(16,655)
Trade and other payables	(346,611)	(351,894)	-	-	(346,611)	(351,894)
Loans and borrowings	(141,540)	(183,054)	-	-	(141,540)	(183,054)
Lease liabilities	(427,292)	-	-	-	(427,292)	-
Net tax (assets)/liabilities	**(1,810,745)**	**(1,309,495)**	**7,794,920**	**6,948,420**	**5,984,175**	**5,638,925**

(b) Movement in deferred tax balances

All movements in deferred tax balances are recognised in profit or loss.

11. Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)

Management has presented the performance measure adjusted EBITDA because it monitors this performance measure and believes that it is relevant to an understanding of the Company's financial performance. Adjusted EBITDA is calculated by adjusting profit for the year to exclude the impact of taxation, net finance costs, depreciation, amortisation, impairment losses/reversals, amortisation of grants, other benefits and other non-operating losses.

Adjusted EBITDA is not a defined performance measure in IFRS. The Company's definition of the adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

'000 AMD	**Note**	**2019***	**2018**
Profit and total comprehensive income for the year		11,764,100	10,753,037
Income tax expense	10	2,152,621	1,265,043
Profit before tax		**13,916,721**	**12,018,080**
Adjustments for:			
- Net finance costs	9	4,247,907	3,287,169
- Depreciation	12	9,650,036	8,459,224
- Amortisation		238,523	331,982
- Reversal of amortisation of government grants		(232,898)	(240,586)
- Impairment losses on trade and other receivables		74,814	34,392
- Donations	8	916,167	1,809,223
- Other benefits paid		37,766	346,677
- Loss on disposal of property and equipment		661,647	237,908
Adjusted EBITDA		**29,510,683**	**26,284,069**

* The Company initially applied IFRS 16 at 1 January 2019. In applying IFRS 16, in relation to the leases that were classified as operating leases, the Company recognises depreciation and interest costs, instead of operating lease expense. In relation to those leases, the Company recognised AMD 147,420 thousand of depreciation charges and AMD 211,865 thousand of additional interest costs from leases in 2019.

12. Property and equipment

'000 AMD	Land, buildings and structures	Transfer devices	Equipment	Transport vehicles	Construction in progress	Computer equipment, fixtures & fittings	Total
Cost							
Balance at 1 January 2018	37,717,364	202,130,409	174,575,061	6,808,752	3,802,688	14,896,291	439,930,565
Additions	12	201	314	890,042	21,027,924	295,012	22,213,505
Transfers	692,214	7,587,633	7,482,397	39,794	(20,297,784)	4,495,746	-
Disposals	(54,782)	(757)	(687,544)	(241,002)	(28,215)	(226,860)	(1,239,160)
Balance at 31 December 2018	**38,354,808**	**209,717,486**	**181,370,228**	**7,497,586**	**4,504,613**	**19,460,189**	**460,904,910**
Balance at 1 January 2019	38,354,808	209,717,486	181,370,228	7,497,586	4,504,613	19,460,189	460,904,910
Additions	-	11,380	-	-	33,887,247	120,011	34,018,638
Transfers	998,542	15,403,509	8,924,752	32,439	(31,419,625)	6,060,383	-
Disposals	(439,913)	(254,526)	(1,424,435)	(100,962)	(142,300)	(828,718)	(3,190,854)
Balance at 31 December 2019	**38,913,437**	**224,877,849**	**188,870,545**	**7,429,063**	**6,829,935**	**24,811,865**	**491,732,694**
Depreciation and impairment losses							
Balance at 1 January 2018	(23,921,467)	(160,250,432)	(123,097,825)	(3,962,835)	(41,402)	(7,132,861)	(318,406,822)
Transfers	763	(455)	52,695	(2,402)	-	(50,601)	-
Depreciation for the year	(564,734)	(3,387,135)	(3,209,673)	(605,978)	-	(691,704)	(8,459,224)
Disposals	200	705	628,945	234,332	3,475	140,792	1,008,449
Balance at 31 December 2018	**(24,485,238)**	**(163,637,317)**	**(125,625,858)**	**(4,336,883)**	**(37,927)**	**(7,734,374)**	**(325,857,597)**
Balance at 1 January 2019	(24,485,238)	(163,637,317)	(125,625,858)	(4,336,883)	(37,927)	(7,734,374)	(325,857,597)
Transfers	383	6,942	(54,655)	2,317	-	45,013	-
Depreciation for the year	(594,260)	(3,986,442)	(3,481,691)	(566,320)	-	(873,903)	(9,502,616)
Disposals	392,476	244,877	1,132,150	98,765	4,782	576,956	2,450,006
Balance at 31 December 2019	**(24,686,639)**	**(167,371,940)**	**(128,030,054)**	**(4,802,121)**	**(33,145)**	**(7,986,308)**	**(332,910,207)**
Carrying value							
At 1 January 2018	13,795,897	41,879,977	51,477,236	2,845,917	3,761,286	7,763,430	121,523,743
At 31 December 2018	13,869,570	46,080,169	55,744,370	3,160,703	4,466,686	11,725,815	135,047,313
At 31 December 2019	**14,226,798**	**57,505,909**	**60,840,491**	**2,626,942**	**6,796,790**	**16,825,557**	**158,822,487**

(a) Security

At 31 December 2019 property and equipment with a carrying amount of AMD 9,681,229 thousand (2018: AMD 10,285,422 thousand) are pledged as security to secure loans from the government of Armenia (see Note 19).

(b) Property and equipment under construction

During 2019, construction works of AMD 3,110,470 thousand represented qualifying asset.

Capitalised borrowing costs related to this construction works amounted to AMD 99,897 thousand (2018: none), with a capitalisation rate of 5.2% (2018: 5.2%).

13. Inventories

’000 AMD	**2019**	**2018**
Operating supplies	9,317,128	9,112,409
Construction materials and spare parts	314,047	369,678
Other	357,697	384,506
	9,988,872	**9,866,593**

14. Prepayments for non-current assets

’000 AMD	**2019**	**2018**
Non-current		
Other	1,048,711	189,476
	1,048,711	**189,476**
Current		
Prepayment for design services and construction works	428,191	2,398,057
Other	90,148	441,606
	518,339	**2,839,663**

Current portion of the balance represents prepayment to a related party for the design, construction and implementation of the automated electricity control and metering systems.

15. Trade and other receivables

’000 AMD	2019	2018
Legal entities	15,863,125	14,596,734
Households	11,510,033	10,647,895
Other receivables	1,759,903	1,004,938
Allowance for impairment of trade receivables	(3,987,669)	(3,956,822)
Allowance for impairment of other receivables	(407,376)	(327,668)
Trade and other receivables included in loans and receivables category	**24,738,016**	**21,965,077**
Other taxes receivable	19,930	20,100
VAT receivable	194,782	112,777
Prepayments given	611,221	1,051,131
Total trade and other receivables	**25,563,949**	**23,149,085**

16. Cash and cash equivalents

’000 AMD	2019	2018
Bank balances (current accounts)	2,904,600	2,034,225
Cash in transit	1,414,694	1,564,393
Cash and cash equivalents in the statement of financial position and statement of cash flows	**4,319,294**	**3,598,618**

The Company’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 22.

17. Capital and reserves

(a) Share capital

The authorised, issued and fully paid share capital as at 31 December 2019 comprises of 246,423 ordinary shares at par value of AMD 75,700 (31 December 2018: 246,423 shares at par value of AMD 75,700).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

At 31 December 2019 the Parent pledged its 100% shareholding in the Company (2018: 100%) to secure a bank loan (see Note 19).

(b) Dividends

In accordance with Armenian legislation, the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with International Financial Reporting Standards. As at 31 December 2019 the Company the Company had retained earnings of AMD 18,316,967 thousand (2018: AMD 6,552,867 thousand).

(c) Additional paid-in capital

The additional paid-in capital relates to the following:

- contribution of AMD 7,207,484 thousand upon derecognition of amounts payable to the state budget against taxes and mandatory social security payments in 2002;
- contribution of AMD 824,310 thousand upon receipt of benefits (the right to set-off various payables) from the Government of Armenia in 2002;
- contribution of AMD 31,239,613 thousand upon transfer of the receivables and payables of four state-owned regional electricity distribution companies in 2002;
- contribution of AMD 7,513,477 thousand and AMD 200,449 thousand in respect of loans from related parties recognised initially at fair value in 2015 and 2014, accordingly;
- distribution of AMD 3,343,323 thousand and AMD 3,695,933 thousand in respect of early repayment of loans from related parties in 2017 and 2016, accordingly.

18. Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs. This is achieved with efficient cash management and constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed through loans and borrowings. With these measures the Company aims for steady profit growth.

The Company's debt to equity ratio at the end of the reporting period was as follows:

'000 AMD	**2019**	**2018**
Total liabilities	126,081,370	110,278,732
Less: cash and cash equivalents	4,319,294	3,598,618
Net debt	**121,762,076**	**106,680,114**
Total equity	76,917,265	65,153,165
Net debt to equity ratio at 31 December	**1.58**	**1.64**

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

19. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 22.

'000 AMD	**2019**	**2018**
Non-current liabilities		
Secured loans from international financial institutions	43,430,861	25,303,347
Secured loans from Government of Armenia	5,118,238	5,551,636
Unsecured bank loans	-	19,743,313
Secured bank loans	-	8,700,214
	48,549,099	**59,298,510**
Current liabilities		
Secured loans from international financial institutions	9,012,617	5,563,197
Secured bank loans	8,444,064	11,610,392
Secured credit line from international financial institution	9,188,497	-
Unsecured bank loans	4,977,171	40,940
Secured loans from Government of Armenia	977,454	961,414
Unsecured borrowings from other companies	4,513	4,513
	32,604,316	**18,180,456**
Total interest bearing liabilities	**81,153,415**	**77,478,966**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2019		31 December 2018	
’000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank loans	USD	5.50%	On demand	3,363,972	3,363,972	-	-
Unsecured bank loans	AMD	9.99%	On demand	1,611,208	1,611,208	-	-
Unsecured bank loans	AMD	9.90%	On demand	1,928	1,928	-	-
Unsecured bank loans	AMD	9.0%	2021	63	63	47	47
Unsecured bank loans	EUR	6.0%	2019	-	-	8,201,028	8,201,028
Unsecured bank loans	USD	5.5%	2019	-	-	4,840,455	4,840,455
Unsecured bank loans	EUR	5.0%	2019	-	-	3,611,959	3,611,959
Unsecured bank loans	EUR	4.3%	2019	-	-	2,772,548	2,772,548
Unsecured bank loans	EUR	4.75%	2019	-	-	232,451	232,451
Unsecured bank loans	AMD	10.5%	2020	-	-	118,136	118,136
Unsecured bank loans	EUR	6.75%	2019	-	-	3,026	3,026
Unsecured bank loans	USD	7.0%	2019	-	-	3,101	3,101
Unsecured bank loans	EUR	6.0%	2019	-	-	1,502	1,502
Secured bank loans	EUR	Euribor+3%	2020 On demand	8,444,064	8,444,064	17,406,229	17,406,229
Secured bank loans	USD	Libor +3%	2018-2019	-	-	2,904,377	2,904,377
Unsecured borrowings from other companies	AMD	1.0%	On demand	4,513	4,513	4,513	4,513
Secured loans from Government of Armenia	JPY	1.8%	2020-2029	7,720,615	5,740,761	8,508,032	6,153,548
Secured loans from Government of Armenia	JPY	1.8%	2020-2039	617,061	354,931	646,790	359,502
Secured loans from international financial institutions	USD	Libor + 3.95%	2020-2024	19,305,259	19,060,576	15,620,252	15,433,284
Secured loans from international financial institutions	USD	Libor + 3.95%	2020-2024	19,300,581	19,042,467	15,620,061	15,433,260
Secured loans from international financial institutions	EUR	Euribor+ 3.95%	2020-2026	7,346,789	7,177,915	-	-
Secured loans from international financial institutions	EUR	Euribor+ 3.95%	2020-2026	7,239,192	7,162,520	-	-
Secured credit line from international financial institution	EUR	Euribor+ 2.75%	2020-2021 On demand	9,188,497	9,188,497	-	-
Total loans and borrowings				**84,143,742**	**81,153,415**	**80,494,507**	**77,478,966**

Secured bank loans are collateralized by 100% of the Company’s shares (see Note 17).

Secured loans from Government of Armenia are collateralized by property and equipment of AMD 9,681,229 thousand (2018: AMD 10,285,422 thousand) (see Note 12(a)).

As at 31 December 2019 the Company breached its maximum covenant threshold for current ratio under the loan agreements with financial institutions, which have been wavied by the lenders.

Because of timing of waivers received loans of AMD 5,426,631 were reclassified from non-current to current portion. In addition, loans with total amount 12,205,931 were classified as on demand in liquidity table in Note 22.

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities		Equity		Total
’000 AMD	**Loans and borrowings**	**Lease liabilities**	**Share capital/ Additional paid-in capital**	**Retained earnings**	
Balance at 1 January 2019	**77,478,966**	**-**	**18,654,221**	**6,552,867**	**102,686,054**
Adjustment on initial application of IFRS 16, net of tax	-	2,350,773	-	-	2,350,773
Restated balance at 1 January 2019	**77,478,966**	**2,350,773**	**18,654,221**	**6,552,867**	**105,036,827**
Changes from financing cash flows	-				
Proceeds from loans and borrowings	154,243,915	-	-	-	154,243,915
Repayment of loans and borrowings	(149,601,272)	-	-	-	(149,601,272)
Payment of lease liabilities	-	(73,535)	-	-	(73,535)
Total changes from financing cash flows	**4,642,643**	**(73,535)**	**-**	**-**	**4,569,108**
The effect of changes in foreign exchange rates	**(1,057,753)**	**-**	**-**	**-**	**(1,057,753)**
Other changes					
Liability-related					
Interest expense	4,846,726	211,865	-	-	5,058,591
Interest paid	(4,333,057)	(211,865)	-	-	(4,544,922)
New leases	-	96,594	-	-	96,594
Other movement	(424,110)	-	-	-	(424,110)
Total liability-related other changes	**89,559**	**96,594**	**-**	**-**	**186,153**
Total equity-related other changes	**-**	**-**	**-**	**11,764,100**	**11,764,100**
Balance at 31 December 2019	**81,153,415**	**2,373,832**	**18,654,221**	**18,316,967**	**120,498,435**

	Liabilities	Equity		Total
’000 AMD	**Loans and borrowings**	**Share capital/ Additional paid-in capital**	**Retained earnings**	
Balance at 1 January 2018	**78,630,341**	**18,654,221**	**(4,200,170)**	**93,084,392**
Changes from financing cash flows				
Proceeds from loans and borrowings	124,057,600	-	-	124,057,600
Repayment of loans and borrowings	(124,124,026)	-	-	(124,124,026)
Total changes from financing cash flows	**(66,426)**	-	-	**(66,426)**
The effect of changes in foreign exchange rates	**(1,775,105)**	**-**	**-**	**(1,775,105)**
Other changes				
Liability-related				
Interest expense	5,368,816	-	-	5,368,816
Interest paid	(4,678,660)	-	-	(4,678,660)
Total liability-related other changes	**690,156**	**-**	**-**	**690,156**
Total equity-related other changes	**-**	**-**	**10,753,037**	**10,753,037**
Balance at 31 December 2018	**77,478,966**	**18,654,221**	**6,552,867**	**102,686,054**

20. Government grants

’000 AMD	**2019**	**2018**
Non-current		
Benefit from low interest loan from the government of Armenia	3,467,397	3,693,470
Other	59,192	66,018
	3,526,589	**3,759,488**
Current		
Benefit from low interest loan from the government of Armenia	237,356	237,345
Other	6,790	6,800
	244,146	**244,145**
Total government grants	**3,770,735**	**4,003,633**

21. Trade and other payables

'000 AMD	2019	2018
Non-current		
Payables to related parties for purchased property and equipment	11,243	3,098,205
Other long term payables	-	254,317
	11,243	**3,352,522**
Current		
Trade payables	16,776,200	13,832,099
Payables for purchased property and equipment	10,382,505	137,040
Prepayments received from customers	1,964,827	1,471,333
Salaries and wages	1,406,127	1,330,152
Vacation reserve	1,149,558	1,156,185
Other taxes payable	611,074	1,202,497
Other	130,298	675,380
	32,420,589	**19,804,686**
Total trade and other payables	**32,431,832**	**23,157,208**

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22.

22. Fair values and risk management

(a) Accounting classifications and fair values

The estimated fair value of all the financial assets and liabilities approximates their carrying amounts.

(b) Measurement of fair values

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Loans and receivables	Discounted cash flows	Not applicable
Other financial liabilities*	Discounted cash flows	Not applicable

* Other financial liabilities include loans and borrowings, trade payables and lease liabilities (2018: include loans and borrowings and trade payables).

(c) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk (see Note 22(c)(ii));
- liquidity risk (see Note 22(c)(iii));
- market risk (see Note 22(c)(iv).

(i) Risk management framework

Management has overall responsibility for the establishment and oversight of the Company’s risk management framework. Management reports regularly to the Board of Directors on its activities.

The Company’s risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from customers.

The carrying amounts of financial assets represent the maximum credit exposure.

Impairment losses on financial assets recognised in profit or loss were as follows.

’000 AMD	**2019**	**2018**
Impairment loss/(reversal) on trade receivables arising from contracts with customers	30,847	72,363
Impairment loss/(reversal) on other receivables	43,967	(37,971)
	74,814	**34,392**

Trade receivables

The Company’s exposure to credit risk is influenced mainly by the individual characteristics customers. The Company does not have an established credit policy under which each new customer is analysed for creditworthiness. The Company does not require collateral in respect of trade receivables nor does it require prepayment before sales are made. Moreover, the Company usually suspends the provision of electricity supply in the case of nonpayment by a customer.

In monitoring customer credit risk, customers are grouped according to their credit risk characteristics including whether they are an individual household or legal entity and aging profile, and are analyzed through late-payment statistics.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for individual and corporate customers.

At 31 December, the exposure to credit risk for trade receivables by type of counterparty was as follows.

	Carrying amount	
’000 AMD	**2019**	**2018**
Households	12,777,574	11,498,662
Legal entities	10,607,915	9,789,145
	23,385,489	**21,287,807**

None of the Company’s customers have external credit ratings assigned. Majority of the Company’s customers have more than 15 years of trading history with the Company, as since its establishment from 2002, the Company has been the only licensed entity to provide electricity distribution and supply services.

Expected credit loss assessment for customers

The Company uses an allowance matrix to measure the ECLs of trade receivables from all customers, which comprise large number of small balances.

Loss rates are calculated using a ‘roll rate’ method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – type of customer (corporate versus individuals).

The following table provides information about the exposure to credit risk and ECLs for trade receivables from customers as at 31 December 2019.

31 December 2019 **’000 AMD**	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance**	**Credit-impaired**
Current (not past due)	0.3%	21,900,068	70,900	No
1-30 days past due	4.9%	630,942	30,767	No
31-90 days past due	12.7%	299,734	37,988	No
91-180 days past due	19.6%	251,481	49,318	Yes
181-365 days past due	30.1%	370,950	111,508	Yes
More than 365 days past due	94.1%	3,919,983	3,687,188	Yes
		27,373,158	**3,987,669**	

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2018.

31 December 2018 ’000 AMD	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance**	**Credit-impaired**
Current (not past due)	0.3%	19,703,865	60,845	No
1-30 days past due	5.8%	555,871	32,036	No
31-90 days past due	11.9%	343,507	40,756	No
91-180 days past due	20.1%	308,522	61,981	Yes
181-365 days past due	31.9%	370,665	118,198	Yes
More than 365 days past due	91.9%	3,962,199	3,643,006	Yes
		25,244,629	**3,956,822**	

Loss rates are based on actual credit loss experience over the past three years. Considering the short nature of trade receivable balances (up to 30 days), no forward looking information is incorporated into ECL calculation by the Company.

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

’000 AMD	**2019**	**2018**
Balance at 1 January	3,956,822	4,172,395
Amounts written off	-	(287,936)
Net remeasurement of loss allowance	30,847	72,363
Balance at 31 December	**3,987,669**	**3,956,822**

The Company writes off trade receivables which are overdue more than three years.

Cash and cash equivalents

The Company held cash in transit and bank balances of AMD 4,319,294 thousand at 31 December 2019 (2018: AMD 3,598,618 thousand), which represents its maximum credit exposure on these assets. The cash in transit and bank balances (current accounts) are held with reputable Armenian banks and payment organisations and the Company does not expect them to fail to meet their obligations.

Per Company’s assessment no impairment loss is recognised on current account primarily due to their short maturities.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the Company maintains the following line of credit:

- Unsecured credit line facility of AMD 10,000,000 thousand. The unused part of the credit line as at 31 December 2019 amounted to AMD 8,392,940 thousand.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments.

31 December 2019		**Contractual cash flows**						
'000 AMD	**Carrying amount**	**Total**	**On demand**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Financial liabilities								
Secured bank loans	8,444,064	8,444,064	8,444,064	-	-	-	-	-
Unsecured bank loans	4,977,171	4,977,171	4,977,171	-	-	-	-	-
Unsecured borrowings from other companies	4,513	4,513	4,513	-	-	-	-	-
Secured loans from Government of Armenia	6,095,692	9,158,998	-	493,607	489,230	967,954	2,816,910	4,391,297
Secured loans from international financial institutions	52,443,478	60,846,564	-	2,717,676	9,175,045	12,545,366	31,421,338	4,987,139
Secured credit line from international financial institution	9,188,497	9,188,497	9,188,497	-	-	-	-	-
Trade and other payables	28,706,373	28,936,598	995,453	15,860,131	11,900,091	-	-	180,923
Lease liabilities	2,373,832	23,460,420	-	51,037	238,459	251,593	814,868	22,104,463
	112,233,620	**145,016,825**	**23,609,698**	**19,122,451**	**21,802,825**	**13,764,913**	**35,053,116**	**31,663,822**

31 December 2018		**Contractual cash flows**						
'000 AMD	**Carrying amount**	**Total**	**On demand**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Financial liabilities								
Secured bank loans	20,310,606	20,958,508	-	-	12,092,111	8,866,397	-	-
Unsecured bank loans	19,784,253	20,864,996	-	150,894	890,284	19,823,818	-	-
Unsecured borrowings from other companies	4,513	4,513	4,513	-	-	-	-	-
Secured loans from Government of Armenia	6,513,050	10,125,970	-	499,449	494,608	979,931	2,851,828	5,300,154
Secured loans from international financial institutions	30,866,544	36,863,828	-	1,921,249	5,608,688	7,166,113	19,276,819	2,890,959
Trade and other payables	19,327,193	19,557,734	921,678	14,981,745	16,156	3,358,892	93,608	185,655
	96,806,159	**108,375,549**	**926,191**	**17,553,337**	**19,101,847**	**40,195,151**	**22,222,255**	**8,376,768**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Company is exposed to currency risk on borrowings that are denominated in currencies other than the functional currency of the Company. The currencies in which these transactions primarily are primarily denominated are U.S. Dollar (USD), Euro (EUR) and Japanese Yen (JPY).

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows:

	USD-denominated	**EUR-denominated**	**JPY-denominated**	**USD-denominated**	**EUR-denominated**	**JPY-denominated**
'000 AMD	**2019**	**2019**	**2019**	**2018**	**2018**	**2018**
Loans and borrowings	(41,467,015)	(31,972,996)	(6,095,692)	(38,614,477)	(32,228,743)	(6,513,050)
Cash and cash equivalents	2,688,593	161,178	-	2,004,184	5	-
Gross exposure	**(38,778,422)**	**(31,811,818)**	**(6,095,692)**	**(36,610,293)**	**(32,228,738)**	**(6,513,050)**

The following significant exchange rates applied during the year:

in AMD	**Average rate**		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
USD 1	480.24	483.93	479.70	483.75
EUR 1	537.46	566.88	537.26	553.65
JPY 1	4.41	4.34	4.39	4.38

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AMD, as indicated below, against the USD, EUR and JPY at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss net of taxes by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

'000 AMD	**Strengthening Profit or loss**	**Weakening Profit or loss**
31 December 2019		
AMD 10% movement against USD	3,102,274	(3,102,274)
AMD 10% movement against EUR	2,544,945	(2,544,945)
AMD 10% movement against JPY	487,655	(487,655)
31 December 2018		
AMD 10% movement against USD	2,928,823	(2,928,823)
AMD 10% movement against EUR	2,578,299	(2,578,299)
AMD 10% movement against JPY	521,044	(521,044)

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Company over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	Carrying amount	
'000 AMD	**2019**	**2018**
Fixed rate instruments		
Financial liabilities	(13,451,208)	(26,301,816)
Financial assets	2,693,043	2,007,524
	(10,758,165)	**(24,294,292)**
Variable rate instruments		
Financial liabilities	(70,076,039)	(51,177,150)
	(70,076,039)	**(51,177,150)**

In particular, fixed-rate financial liabilities include fixed rate bank loans in total amount AMD 11,072,863 thousand for which the banks have the option to revise the interest rate following the change of key rate set by the CBA and the Company has an option to either accept the revised rate or redeem the loan at par without penalty.

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed-rate financial instruments as FVTPL or FVOCI. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss net of taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
	100 bp increase	**100 bp decrease**
’000 AMD		
2019		
Variable rate instruments	(560,608)	560,608
Cash flow sensitivity (net)	**(560,608)**	**560,608**
2018		
Variable rate instruments	(409,417)	409,417
Cash flow sensitivity (net)	**(409,417)**	**409,417**

23. Leases

(a) Leases as lessee

The Company leases land for electricity substations, office buildings and warehouses, transport vehicles and equipment. The leases typically run for a period of 99 years for land leases and from 1 year to 15 years for the remaining leases. All of these leases were classified as operating leases under IAS 17.

For all of the leases of land plots the rentals depend on either cadastral value of the underlying assets or are equal to the land tax which do not reflect changes in market rental rates, thus monthly rentals are not included in the calculation of lease liability.

For majority of leases of office buildings and warehouses initial contract term has been expired and currently they have indefinite term with mutually cancellable any time by 3 months prior notice (in accordance with RA Civil Law clauses). The leases are considered short-term as the Company does not have significant leasehold improvements performed on those objects and hence there are no material penalties associated with termination of these contracts. The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases.

The Company leases major part of transport vehicles and equipment with contract terms of 1 to 3 years. These leases are short-term and/or leases of low-value items. The Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Company is a lessee is presented below.

(i) Right-of-use assets

’000 AMD	Property and equipment
2019	
Balance at 1 January	2,350,773
Depreciation charge for the year	(147,420)
Additions to right-of-use assets	96,594
Balance at 31 December	**2,299,947**

(ii) Amounts recognised in profit or loss

’000 AMD	2019
2019 – Leases under IFRS 16	
Interest on lease liabilities	211,865
Expenses relating to short-term leases	237,296
2018 – Operating leases under IAS 17	
Lease expense	427,588

(iii) Amounts recognised in statement of cash flows

’000 AMD	2019
Total cash outflow for leases	**285,400**

(b) Leases as lessor

The Company leases out insignificant part of its pillars, equipment and transport vehicles. All leases are classified as operating leases from a lessor perspective.

24. Capital commitments

The Company enters into several contracts related to connecting new subscribers to the electricity network. The commitments related to these contracts at 31 December 2019 amounted to AMD 5,469,582 thousand (31 December 2018: AMD 4,749,851 thousand).

25. Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Litigations

In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the results of operations or financial position of the Company.

(c) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26. Related parties

(a) Parent and ultimate controlling party

The Company's immediate parent company is Tashir Capital cjsc which is also the ultimate parent Company.

The ultimate controlling party is Mr. Samvel Karapetyan.

No publicly available financial statements are produced by the Company's ultimate parent company.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

'000 AMD	**2019**	**2018**
Salaries and bonuses	**931,348**	**809,594**

(ii) Key management personnel transactions

The aggregate value of transactions and outstanding balances related to key management personnel were as follows:

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
'000 AMD	**2019**	**2018**	**2019**	**2018**
Lease of property	(95,337)	(50,004)	(1,050,566)	(4,167)

(c) Other related party transactions

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
'000 AMD	**2019**	**2018**	**2019**	**2018**
Sales of power:				
Entities under common control and related to shareholders	210,008	1,172,414	27,569	322,526
Sales of goods:				
Entities under common control	52,513	293,481	112,320	114,936
Purchase of power:				
Entities under common control and related to shareholders	(19,871,922)	(16,788,272)	(2,900,523)	(1,858,539)
Prepayment for goods and services:				
Entities under common control and related to shareholders	(5,117,279)	(12,188,077)	518,339	2,871,378
Purchase of goods and services:				
Entities under common control and related to shareholders	(15,885,625)	(12,644,194)	(9,373,143)	(3,588,033)

27. Subsequent events

Subsequent to 31 December 2019, Moody's Investors Service, ("Moody's") has assigned a Ba2 corporate family rating and a Ba2-PD probability of default rating to the Electric Networks of Armenia CJSC.

28. Basis of measurement

The financial statements are prepared on the historical cost basis.

29. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Revenue

Information about the Company's accounting policies relating to contracts with customers is provided in Note 6(d).

(b) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(c) Finance income and finance costs

The Company's finance income and finance costs include:

– interest income;
– interest expense;
– the foreign currency gain or loss on financial assets and financial liabilities;

Interest income or expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or
– the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to AMD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(e) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(f) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(g) Inventories

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

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

(h) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.
Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of significant items of property and equipment for the current and comparative periods are as follows:

- land, buildings and structures 45-50 years;
- transfer devices 25 years;
- equipment 25 years;
- transport vehicles 8 years;
- computer equipment, fixtures and fittings 3-8 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above, or FVOCI, are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual cash flows or realising cash flows through the sale of the assets;
– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.
In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criterion), the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

– contingent events that would change the amount or timing of cash flows;
– prepayment and extension features; and
– terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial assets – Subsequent measurement and gains and losses:

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised and are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on the derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBA key rate, if the loan contract entitles banks to do so and the Company has an option to either accept the revised rate or redeem the loan at par without penalty. The Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(j) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(k) Impairment

(i) Non-derivative financial assets

Financial instruments

The Company recognises loss allowances for ECL on financial assets measured at amortised cost.

The Company measures loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment. No forward looking information is incorporated due to short maturities of financial assets.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

– the customer is unlikely to pay its credit obligations to the Company in full; or
– the financial asset is more than 365 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

Due to short maturities of trade receivables no discounting is applied for the ECLs.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the customer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
– it is probable that the customer will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For its customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 3 years past due based on historical experience of recoveries of similar assets. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.
This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities separately in the statement of financial position.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

In accordance with IFRS 16 variable payments which do not depend on index or rate, e. g. which do not reflect changes in market rental rates, should not be included in the measurement of lease liability. In respect of municipal or federal land leases where lease payments are based on cadastral value of the land plot and do not change until the next revision of that value or the applicable rates (or both) by the authorities, the Company has determined that, under the current revision mechanism, the land lease payments cannot be considered as either variable that depend on index or rate or in-substance fixed, and therefore these payments are not included in the measurement of the lease liability.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

– fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
– the arrangement had conveyed a right to use the asset.

An arrangement conveyed the right to use the asset if one of the following was met:

– the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
– the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

– facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period assets held under all leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

30. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

– *Amendments to References to Conceptual Framework in IFRS Standards.*
– *Definition of a Business (Amendments to IFRS 3).*
– *Definition of Material (Amendments to IAS 1 and IAS 8).*
– *IFRS 17 Insurance Contracts.*