Electric Networks of Armenia CJSC

Financial Statements
for 2018

Contents

Independent Auditors' Report	3
Statement of Financial Position	5
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9

KPMG Armenia LLC
8th floor, Erebuni Plaza Business Center,
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia
Telephone + 374 (10) 595 999
Internet www.kpmg.am

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 2018, 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 2018, 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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.

KPMG Armenia llc, a company incorporated under the Laws of the Republic of Armenia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

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
21 March 2018

'000 AMD	Note	31 December 2018	31 December 2017
Assets			
Property and equipment	12	135,047,313	121,523,743
Intangible assets		626,381	635,931
Prepayments for non-current assets	14	189,476	213,470
Other non-current assets		3,798	3,800
Non-current assets		**135,866,968**	**122,376,944**
Inventories	13	9,866,593	7,349,129
Current tax assets		110,970	1,512,367
Trade and other receivables	15	23,149,085	25,620,806
Prepayments for non-current assets	14	2,839,663	8,030,129
Bank deposit		-	20,760
Cash and cash equivalents	16	3,598,618	1,852,297
Current assets		**39,564,929**	**44,385,488**
Total assets		**175,431,897**	**166,762,432**
Equity			
Share capital		18,654,221	18,654,221
Additional paid-in capital		39,946,077	39,946,077
Accumulated profit/ (losses)		6,552,867	(4,200,170)
Total equity	17	**65,153,165**	**54,400,128**
Liabilities			
Government grants	20	3,759,488	4,000,074
Loans and borrowings	19	59,298,510	57,905,388
Trade and other payables	21	3,352,522	54,186
Deferred tax liabilities	10	5,638,925	6,075,279
Non-current liabilities		**72,049,445**	**68,034,927**
Government grants	20	244,145	244,146
Loans and borrowings	19	18,180,456	20,724,953
Trade and other payables	21	19,804,686	23,358,278
Current liabilities		**38,229,287**	**44,327,377**
Total liabilities		**110,278,732**	**112,362,304**
Total equity and liabilities		**175,431,897**	**166,762,432**

The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. 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 9 to 50.

'000 AMD	Note	2018	2017
Revenue	6	181,411,820	191,026,297
Purchased power	7	(120,950,932)	(123,218,529)
Service fees for electricity transmission		(7,723,029)	(11,758,329)
Wages and salaries		(19,260,730)	(19,848,701)
Depreciation and amortisation		(8,791,206)	(7,651,047)
Inventory used		(1,128,098)	(2,052,581)
Repairs and maintenance		(1,872,555)	(1,409,851)
Impairment loss on trade receivables	22	(34,392)	54,932
Other income		688,884	779,350
Other expenses	8	(7,034,513)	(7,135,206)
Results from operating activities		**15,305,249**	**18,786,335**
Finance income	9	542,500	136,912
Finance costs	9	(3,829,669)	(8,657,700)
Net finance costs		**(3,287,169)**	**(8,520,788)**
Profit before income tax		**12,018,080**	**10,265,547**
Income tax expense	10	(1,265,043)	(3,611,547)
Profit and total comprehensive income for the year		**10,753,037**	**6,654,000**

The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. As a result of adoption of IFRS 15 the Company changed presentation of certain captions. Comparative information is represented accordingly see Note 5.

These financial statements were approved by management on 21 March 2018 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 9 to 50.

'000 AMD	Share capital	Additional paid-in capital	Accumulated profit/(losses)	Total equity
Balance at 1 January 2017	18,654,221	43,289,400	(10,854,170)	51,089,451
Total comprehensive income				
Profit for the year	-	-	6,654,000	6,654,000
Total comprehensive income for the year	-	-	**6,654,000**	**6,654,000**
Transactions with owners of the Company				
Contributions and distributions				
Reversal of additional paid-in capital for early repaid loan (Note 17(c))	-	(3,343,323)	-	(3,343,323)
Total contributions and distributions	-	**(3,343,323)**	-	**(3,343,323)**
Total transactions with owners of the Company	-	**(3,343,323)**	-	**(3,343,323)**
Balance at 31 December 2017	**18,654,221**	**39,946,077**	**(4,200,170)**	**54,400,128**
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**

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 9 to 50.

'000 AMD	Note	2018	2017
Cash flows from operating activities			
Profit for the year		10,753,037	6,654,000
Adjustments for:			
Depreciation and amortisation		8,791,206	7,651,047
Impairment losses/(reversal)		34,392	(54,932)
Loss on disposal of property and equipment		135,707	191,430
Write-down of inventories		(12,636)	(53,560)
Amortisation of government grants		(240,587)	(243,405)
Net finance costs		3,287,169	8,520,788
Income tax expense		1,265,043	3,611,547
Changes in:			
Inventories		(2,504,828)	(918,002)
Trade and other receivables		2,413,119	3,287,166
Trade and other payables		(982,575)	(3,794,449)
Cash flow from operations before income taxes and interest paid		**22,939,047**	**24,851,630**
Income tax paid		(300,000)	(6,769,307)
Net cash flows from operating activities		**22,639,047**	**18,082,323**
Cash flows from investing activities			
Acquisition of property and equipment		(16,266,236)	(20,203,402)
Acquisition of intangible assets		(322,432)	(336,593)
Proceeds from sale of property and equipment		93,788	173,973
Placement of bank deposits		(14,542,997)	(14,451,900)
Proceeds from bank deposits		14,477,800	14,464,477
Interest received		558,041	120,737
Net cash flows used in investing activities		**(16,002,036)**	**(20,232,708)**
Cash flow from financing activities			
Proceeds from borrowings		124,057,600	173,079,194
Repayment of borrowings		(124,124,026)	(151,610,945)
Interest paid		(4,678,660)	(18,991,506)
Net cash flows (used in)/from financing activities		**(4,745,086)**	**2,476,743**
Net (decrease)/increase in cash and cash equivalents		**1,891,925**	**326,358**
Cash and cash equivalents at 1 January		1,852,297	1,342,069
Effect of movements in exchange rates on cash and cash equivalents		(145,604)	183,870
Cash and cash equivalents at 31 December	16	**3,598,618**	**1,852,297**

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 9 to 50.

Note		Page
1.	Background	10
2.	Basis of accounting	10
3.	Functional and presentation currency	10
4.	Use of estimates and judgments	11
5.	Changes in significant accounting policies	11
6.	Revenue	14
7.	Purchased power	17
8.	Other expenses	18
9.	Finance income and finance costs	18
10.	Income tax	19
11.	Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)	21
12.	Property and equipment	22
13.	Inventories	23
14.	Prepayments for non-current assets	23
15.	Trade and other receivables	23
16.	Cash and cash equivalents	24
17.	Capital and reserves	24
18.	Capital management	25
19.	Loans and borrowings	25
20.	Government grants	28
21.	Trade and other payables	28
22.	Fair values and risk management	29
23.	Capital commitments	36
24.	Contingencies	36
25.	Related party disclosures	37
26.	Basis of measurement	39
27.	Significant accounting policies	39
28.	New standards and interpretations not yet adopted	49

1. Background

(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 2018 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 25.

(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

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 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 5.

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 judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, 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 judgments 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

The Company has initially applied IFRS 15 (see A) and IFRS 9 (see B) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables (see (B)) and presenting network connection activities in "Revenue" from "Other income: (see (A) .

The initial application of these standards did not have impact on the Company's financial statements.

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). There was no impact of adopting IFRS 15 on the Company's financial statements at 1 January 2018 and 31 December 2018 as the timing and amount of revenue recognition both under IFRS 15 and IAS 18 is substantially the same.

The Company reclassified revenue from network connection activities of AMD 1,026,826 thousand in 2017 from 'Other income' in statement of profit or loss and other comprehensive income to 'Revenue'.

B. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements,* which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss. Previously the Company's approach was the same.

Additionally, the Company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The transition to IFRS 9 did not have impact on the opening balance of reserves and retained earnings (for a description of the transition method, see (iv)).

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had effect on the Company's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and measures financial instruments under IFRS 9, see Note 27(i)(iii).

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

'000 AMD	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	23,754,022	23,754,022
Cash and cash equivalents	Loans and receivables	Amortised cost	1,852,297	1,852,297
Total financial assets			**25,606,319**	**25,606,319**

'000 AMD	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial liabilities				
Secured bank loans	Other financial liabilities	Other financial liabilities	36,075,214	36,075,214
Unsecured bank loans	Other financial liabilities	Other financial liabilities	2,221,470	2,221,470
Unsecured borrowings from other companies	Other financial liabilities	Other financial liabilities	4,512	4,512
Secured loans from Government of Armenia	Other financial liabilities	Other financial liabilities	6,793,058	6,793,058
Secured loans from international financial institutions	Other financial liabilities	Other financial liabilities	33,536,087	33,536,087
Trade payables	Other financial liabilities	Other financial liabilities	20,565,925	20,565,925
Total financial liabilities			**99,196,266**	**99,196,266**

There was no effect of adopting IFRS 9 on the carrying amounts of financial assets and liabilities at 1 January 2018, including the new impairment requirements on transition to IFRS 9 on 1 January 2018.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 27 (k)(i).

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in no additional allowance for impairment. Additional information about how the Company measures the allowance for impairment is described in Note 22.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.

The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

6. Revenue

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in Note 5.

(a) Revenue streams

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

'000 AMD	2018	2017
Revenue from contracts with customers	180,146,941	189,999,471
Other revenue		
Network connection activities	1,264,879	1,026,826
Total revenue	**181,411,820**	**191,026,297**

(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	2018	2017	2018	2017	2018	2017
Primary geographical regions of electricity sales						
Yerevan	47,627,017	48,109,888	32,262,237	36,436,829	79,889,254	84,546,717
Syunik	18,503,332	18,263,149	6,776,009	7,055,444	25,279,341	25,318,593
Ararat	11,577,042	11,017,850	6,332,439	6,558,416	17,909,481	17,576,266
Kotayk	9,317,101	9,107,251	6,049,551	6,225,450	15,366,652	15,332,701
Armavir	6,012,524	5,888,040	4,180,220	4,236,859	10,192,744	10,124,899
Lori	4,143,167	9,116,031	3,925,088	4,068,639	8,068,255	13,184,670
Shirak	2,914,923	2,920,081	3,266,291	3,313,425	6,181,214	6,233,506
Gegharkunik	2,743,471	2,699,734	2,763,957	2,862,696	5,507,428	5,562,430
Aragatsotn	2,401,475	2,337,784	2,499,453	2,547,743	4,900,928	4,885,527
Tavush	2,118,193	2,065,565	1,971,195	1,992,211	4,089,388	4,057,776
Vayots Dzor	967,927	999,192	1,038,874	1,074,634	2,006,801	2,073,826
Other	755,455	1,102,560	-	-	755,455	1,102,560
	109,081,627	**113,627,125**	**71,065,314**	**76,372,346**	**180,146,941**	**189,999,471**
Major service lines						
Sale of electric power	109,081,627	113,627,125	71,065,314	76,372,346	180,146,941	189,999,471
Network connection activity	546,729	488,742	718,150	538,084	1,264,879	1,026,826
	109,628,356	**114,115,867**	**71,783,464**	**76,910,430**	**181,411,820**	**191,026,297**
Timing of revenue recognition						
Products and services transferred over time	109,628,356	114,115,867	71,783,464	76,910,430	181,759,651	191,026,297
Revenue from contracts with customers	**109,628,356**	**114,115,867**	**71,783,464**	**76,910,430**	**181,759,651**	**191,026,297**

(c) Contract balances

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

'000 AMD	31 December 2018	1 January 2018
Receivables, which are included in 'trade and other receivables'	21,287,807	22,587,329
Contract liabilities	(1,471,333)	(1,464,240)

The contract liabilities relate to the advance consideration received from customers for connecting customers to power network of AMD 904,034 thousand (2017: AMD 797,408 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 567,299 thousand (2017: AMD 666,832 thousand).

The amount of AMD 1,164,539 thousand recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2018.

No information is provided about remaining performance obligations at 31 December 2018 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 under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Sale of electric energy	The Company's promise to cusomters 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.	Contract revenue was recognized monthly with reference to electricity consumed.

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Connection to power network	The Company performes activities related to connecting its cutomers 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.	Revenue was recognised when the risks and rewards of ownership of the goods and services were transferred to customer.

7. Purchased power

'000 AMD	2018	2017
Electricity for distribution	77,867,844	80,333,831
Available capacity	43,083,088	42,884,698
	120,950,932	**123,218,529**

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

8. Other expenses

'000 AMD	2018	2017
Donations	1,809,223	1,925,728
Collection fees and bank charges	883,608	1,020,493
Taxes, other than on income	774,000	648,569
Electricity transmission services	737,076	773,181
Rent	427,588	338,940
Employee benefits other than salaries and wages	264,933	306,429
Communication	233,759	170,305
Security	188,054	180,160
Transportation expenses	185,635	198,572
Professional services	174,874	212,266
Fines and penalties	160,313	143,287
Loss on disposal of property and equipment	140,770	280,684
Advertising expenses	128,504	148,422
Travel	77,969	84,874
Representative expenses	52,414	104,336
Other	795,793	598,960
	7,034,513	**7,135,206**

9. Finance income and finance costs

'000 AMD	2018	2017
Interest income under the effective interest method on:		
Term deposits	542,500	136,912
Total interest income arising from financial assets measured at amortised cost	**542,500**	**136,912**
Net foreign exchange gain	1,539,147	-
Finance income – other	**1,539,147**	-
Financial liabilities measured at amortised cost – interest expense	(5,368,816)	(4,741,793)
Net foreign exchange loss	-	(3,915,907)
Finance costs – other	**(5,368,816)**	**(8,657,700)**
Net finance costs recognised in profit or loss	**(3,287,169)**	**(8,520,788)**

10. Income tax

(a) Amounts recognised in profit or loss

The Company's applicable tax rate is the income tax rate of 20% (2017: 20%).

'000 AMD	2018	2017
Current tax expense		
Current tax	1,789,152	2,259,702
Over-provided in prior years	(87,755)	-
Deferred tax expense		
Origination and reversal of temporary differences	(436,354)	1,351,845
Total tax expense	**1,265,043**	**3,611,547**

(b) Amounts recognised directly in equity

	2018			2017		
'000 AMD	**Before tax**	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Reversal of additional paid-in capital for early repaid loan	-	-	-	(4,179,154)	(835,831)	(3,343,323)
	-	**-**	**-**	**(4,179,154)**	**(835,831)**	**(3,343,323)**

Reconciliation of effective tax rate:

	2018		2017	
	'000 AMD	**%**	**'000 AMD**	**%**
Profit before income tax	12,018,080	100	10,265,547	100
Income tax at applicable tax rate	2,403,616	20	2,053,109	20
Change in applicable tax legislation	(1,166,213)	(10)	-	-
Non-deductible expenses	115,395	1	1,558,438	15
Over-provided in prior years	(87,755)	(1)	-	-
	1,265,043	**10**	**3,611,547**	**35**

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 AMD	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Property and equipment	-	-	6,948,420	7,354,267	6,948,420	7,354,267
Intangible assets	(117,068)	(115,815)	-	-	(117,068)	(115,815)
Inventories	(166,509)	(188,080)	-	-	(166,509)	(188,080)
Trade and other receivables	(474,315)	(437,503)	-	-	(474,315)	(437,503)
Other assets	(16,655)	(16,668)	-	-	(16,655)	(16,668)
Trade and other payables	(351,894)	(394,640)	-	-	(351,894)	(394,640)
Loans and borrowings	(183,054)	(126,282)	-	-	(183,054)	(126,282)
Net tax (assets)/liabilities	**(1,309,495)**	**(1,278,988)**	**6,948,420**	**7,354,267**	**5,638,925**	**6,075,279**

(d) Movement in deferred tax balances

'000 AMD	**1 January 2018**	**Recognised in profit or loss**	**Recognised directly in equity**	**31 December 2018**
Property and equipment	7,354,267	(405,847)	-	6,948,420
Intangible assets	(115,815)	(1,253)	-	(117,068)
Inventories	(188,080)	21,571	-	(166,509)
Trade and other receivables	(437,503)	(36,812)	-	(474,315)
Other assets	(16,668)	13	-	(16,655)
Trade and other payables	(394,640)	42,746	-	(351,894)
Loans and borrowings	(126,282)	(56,772)	-	(183,054)
	6,075,279	**(436,354)**	-	**5,638,925**

'000 AMD	**1 January 2017**	**Recognised in profit or loss**	**Recognised directly in equity**	**31 December 2017**
Property and equipment	6,243,928	1,110,339	-	7,354,267
Intangible assets	(95,336)	(20,479)	-	(115,815)
Inventories	(197,836)	9,756	-	(188,080)
Trade and other receivables	(221,051)	(216,452)	-	(437,503)
Other assets	(16,649)	(19)	-	(16,668)
Trade and other payables	(408,422)	13,782	-	(394,640)
Loans and borrowings	254,631	454,918	(835,831)	(126,282)
	5,559,265	**1,351,845**	**(835,831)**	**6,075,279**

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, donations, 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	2018	2017
Profit and total comprehensive income for the year		10,753,037	6,654,000
Income tax expense	10	1,265,043	3,611,547
Profit before tax		**12,018,080**	**10,265,547**
Adjustments for:			
- Net finance costs	9	3,287,169	8,520,788
- Depreciation	12	8,459,224	7,338,456
- Amortisation		331,982	312,591
- Reversal of amortisation of government grants		(240,586)	(243,405)
- Impairment losses/(reversals) on trade and other receivables		34,392	(54,932)
- Donations	8	1,809,223	1,925,728
- Other benefits paid		346,677	207,409
- Other non-operating losses		237,908	51,431
Adjusted EBITDA		**26,284,069**	**28,323,613**

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 2017	36,742,609	196,709,142	165,279,287	6,200,945	9,318,866	10,080,425	424,331,274
Additions	141,107	18,001	111,983	678,372	17,337,136	261,870	18,548,469
Transfers	1,290,381	5,659,044	10,745,388	47,592	(22,379,116)	4,636,711	-
Disposals	(456,733)	(255,778)	(1,561,597)	(118,157)	(474,198)	(82,715)	(2,949,178)
Balance at 31 December 2017	**37,717,364**	**202,130,409**	**174,575,061**	**6,808,752**	**3,802,688**	**14,896,291**	**439,930,565**
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**
Depreciation and impairment losses							
Balance at 1 January 2017	(23,691,712)	(157,334,877)	(121,813,653)	(3,562,949)	(508,113)	(6,740,905)	(313,652,209)
Transfers	68,932	(177,258)	42,297	(9,791)	99,229	(23,409)	-
Depreciation for the year	(585,607)	(2,996,992)	(2,788,535)	(516,962)	-	(450,360)	(7,338,456)
Disposals	286,920	258,695	1,462,066	126,867	367,482	81,813	2,583,843
Balance at 31 December 2017	**(23,921,467)**	**(160,250,432)**	**(123,097,825)**	**(3,962,835)**	**(41,402)**	**(7,132,861)**	**(318,406,822)**
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	-	144,267	1,008,449
Balance at 31 December 2018	**(24,485,238)**	**(163,637,317)**	**(125,625,858)**	**(4,336,883)**	**(41,402)**	**(7,730,899)**	**(325,857,597)**
Carrying value							
At 1 January 2017	13,050,897	39,374,265	43,465,634	2,637,996	8,810,753	3,339,520	110,679,065
At 31 December 2017	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**	**4,463,211**	**11,729,290**	**135,047,313**

(a) Security

At 31 December 2018 properties with a carrying amount of AMD 10,285,422 thousand (2017: AMD 10,908,665 thousand) are pledged as security to secure loans from Government of Armenia (see Note 18).

13. Inventories

'000 AMD	2018	2017
Operating supplies	9,112,409	6,728,327
Construction materials and spare parts	369,678	355,625
Other	384,506	265,177
	9,866,593	**7,349,129**

14. Prepayments for non-current assets

'000 AMD	2018	2017
Non-current		
Other	189,476	213,470
	189,476	**213,470**
Current		
Prepayment for design services and construction works	2,398,057	7,466,739
Other	441,606	563,390
	2,839,663	**8,030,129**

Prepayment for services received 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	2018	2017
Legal entities	14,596,734	15,511,376
Households	10,647,895	11,248,348
Other receivables	1,004,938	1,565,911
Allowance for impairment of trade receivables	(3,956,822)	(4,172,395)
Allowance for impairment of other receivables	(327,668)	(399,218)
Trade and other receivables included in loans and receivables category	**21,965,077**	**23,754,022**
Other taxes receivable	20,100	220,099
VAT receivable	112,777	407,602
Prepayments given	1,051,131	1,239,083
Total trade and other receivables	**23,149,085**	**25,620,806**

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 22.

16. Cash and cash equivalents

'000 AMD	2018	2017
Bank balances (current accounts)	2,034,225	1,157,520
Cash in transit	1,564,393	694,777
Cash and cash equivalents in the statement of financial position and statement of cash flows	**3,598,618**	**1,852,297**

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 2018 comprises of 75,700 ordinary shares at par value of AMD 246,423 (31 December 2017: 75,700 shares at par value of AMD 246,423).

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 2018 the Parent pledged its 100% shareholding in the Company (2017: 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 2018 the Company did not have distributable reserves (2017: nil).

(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	2018	2017
Total liabilities	110,278,732	112,362,304
Less: cash and cash equivalents	3,598,618	1,852,297
Net debt	**106,680,114**	**110,510,007**
Total equity	65,153,165	54,400,128
Net debt to equity ratio at 31 December	**1.64**	**2.03**

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	2018	2017
Non-current		
Secured loans from international financial institutions	25,303,347	30,932,834
Unsecured bank loans	19,743,313	-
Secured bank loans	8,700,214	21,136,296
Secured loans from Government of Armenia	5,551,636	5,836,258
	59,298,510	**57,905,388**
Current		
Secured bank loans	11,610,392	14,938,918
Secured loans from international financial institutions	5,563,197	2,603,253
Secured loans from Government of Armenia	961,414	956,800
Unsecured bank loans	40,940	2,221,470
Unsecured borrowings from other companies	4,513	4,512
	18,180,456	**20,724,953**
Total loans and borrowings	**77,478,966**	**78,630,341**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2018		2017	
'000 AMD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans	EUR	6.00%	2020	8,201,028	8,201,028	-	-
Unsecured bank loans	USD	5.50%	2020	4,840,455	4,840,455	-	-
Unsecured bank loans	EUR	5.00%	2020	3,611,959	3,611,959	-	-
Unsecured bank loans	EUR	4.30%	2020	2,772,548	2,772,548	-	-
Unsecured bank loans	EUR	4.75%	2020	232,451	232,451	-	-
Unsecured bank loans	AMD	10.50%	2020	118,136	118,136	-	-
Unsecured bank loans	EUR	6.75%	2019	3,026	3,026	2,392	2,392
Unsecured bank loans	USD	7.00%	2019	3,101	3,101	1,940	1,940
Unsecured bank loans	EUR	6.00%	2019	1,502	1,502	954	954
Unsecured bank loans	EUR	4.30%	2018	-	-	754,611	754,611
Unsecured bank loans	USD	4.50%	2018	-	-	1,457,202	1,457,202
Unsecured bank loans	EUR	4.00%	2018	-	-	1,748	1,748
Unsecured bank loans	AMD	10.00%	2018	-	-	1,682	1,682
Unsecured bank loans	AMD	9.00%	2021	47	47	-	-
Unsecured bank loans	USD	4.50%	2018	-	-	941	941
Secured bank loans	EUR	Euribor+3%	2018-2020	17,406,229	17,406,229	27,356,877	27,356,877
Secured bank loans	USD	Libor +3%	2018-2019	2,904,377	2,904,377	8,718,337	8,718,337
Unsecured borrowings from other companies	AMD	1.00%	On demand	4,513	4,513	4,512	4,512
Secured loans from Government of Armenia	JPY	1.80%	2018-2029	8,508,032	6,153,548	9,139,736	6,435,450
Secured loans from Government of Armenia	JPY	1.80%	2018-2039	646,790	359,502	665,343	357,608
Secured loans from international financial institutions	USD	Libor +3.75%	2018-2024	15,620,253	15,433,284	17,029,357	16,767,994
Secured loans from international financial institutions	USD	Libor +3.75%	2018-2024	15,620,061	15,433,260	17,029,362	16,768,093
Total loans and borrowings				**80,494,508**	**77,478,966**	**82,164,994**	**78,630,341**

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 AMD 10,285,422 thousand (2017: AMD 10,908,665 thousand) (see Note 12(a)).

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

	Liabilities		Equity		
'000 AMD	Bank overdraft used for cash management purposes	Other loans and borrowings	Share capital/ Additional paid-in capital	Retained earnings	Total
Balance at 1 January 2018	**2,221,469**	**76,408,872**	**18,654,221**	**(4,200,170)**	**93,084,392**
Changes from financing cash flows					
Proceeds from borrowings	-	10,095,550	-	-	10,095,550
Repayment of borrowings	-	(20,839,200)	-	-	(20,839,200)
Total changes from financing cash flows	**-**	**(10,743,650)**	**-**	**-**	**(10,743,650)**
The effect of changes in foreign exchange rates	**(813,334)**	**(961,771)**	**-**	**-**	**(1,775,105)**
Other changes					
Liability-related					
Proceeds from bank overdraft	113,962,050	-	-	-	113,962,050
Repayment of bank overdraft	(103,284,826)	-	-	-	(103,284,826)
Interest expense	1,586,476	3,782,340	-	-	5,368,816
Interest paid	(1,500,584)	(3,178,076)	-	-	(4,678,660)
Total liability-related other changes	**10,763,116**	**604,264**	**-**	**-**	**11,367,380**
Total equity-related other changes	**-**	**-**	**-**	**10,753,037**	**10,753,037**
Balance at 31 December 2018	**12,171,251**	**65,307,715**	**18,654,221**	**6,552,867**	**102,686,054**

20. Government grants

'000 AMD	2018	2017
Non-current		
Benefit from low interest loan from Government of Armenia	3,693,470	3,927,262
Other	66,018	72,812
	3,759,488	**4,000,074**
Current		
Benefit from low interest loan from Government of Armenia	237,345	237,327
Other	6,800	6,819
	244,145	**244,146**
Total government grants	**4,003,633**	**4,244,220**

21. Trade and other payables

'000 AMD	2018	2017
Non-current		
Payables to related parties for purchased property and equipment	3,098,205	54,186
Other long term payables	254,317	-
	3,352,522	**54,186**
Current		
Trade payables	13,832,099	16,006,670
Prepayments received from customers	1,471,333	1,464,240
Salaries and wages	1,330,152	1,364,873
Vacation reserve	1,156,185	1,188,427
Other taxes payable	1,202,497	193,872
Payables for purchased property and equipment	137,040	2,527,048
Other	675,380	613,148
	19,804,686	**23,358,278**
Total trade and other payables	**23,157,208**	**23,412,464**

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) Fair values of financial instruments

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 and trade payables.

(c) Financial risk management

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

- credit risk;
- liquidity risk;
- market risk.

(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 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	2018	2017
Impairment loss/(reversal) on trade receivables arising from contracts with customers	72,363	(60,543)
Impairment loss/(reversal) on other receivables	(37,971)	5,611
	34,392	**(54,932)**

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of 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 2018, the exposure to credit risk for trade receivables by type of counterparty was as follows.

	Carrying amount	
'000 AMD	**2018**	**2017**
Households	11,498,662	10,381,856
Legal entities	9,789,145	12,205,473
	21,287,807	**22,587,329**

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

Comparative information under IAS 39

The ageing of trade receivables as at 31 December 2017 was as follows.

'000 AMD	**Gross**	**Impairment**
Not past due	20,545,327	(71,411)
Past due 0 - 60 days	957,667	(57,109)
Past due 61 - 120 days	336,456	(43,935)
Past due 121 days and more	4,920,274	(3,999,940)
	26,759,724	**(4,172,395)**

Expected credit loss assessment for customers as at 1 January and 31 December 2018

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 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. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

'000 AMD	**2018**	**2017**
Balance at 1 January under IAS 39	4,172,395	4,232,938
Adjustment on initial application of IFRS 9	-	
Balance at 1 January under IFRS 9	**4,172,395**	
Amounts written off	(287,936)	-
Net remeasurement of loss allowance	72,363	(60,543)
Balance at 31 December	**3,956,822**	**4,172,395**

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

Cash and cash equivalents

The Company held cash in transit and bank balances of AMD 1,677,363 thousand at 31 December 2018 (2017: AMD 1,852,297 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 maturitirs.

(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 lines of credit:

- Unsecured credit line facility of AMD 4,500,000 thousand. The unused part of the credit line as at 31 December 2018 amounted to AMD 4,382,000 thousand.

- Unsecured credit line facility of USD 6,500 thousand. The unused part of the credit line as at 31 December 2018 amounted to USD 6,500 thousand.

- Unsecured credit line facilities of EUR 52,900 thousand. The unused part of the credit lines as at 31 December 2018 amounted to EUR 37,688 thousand.

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

2018 '000 AMD	Carrying amount	Contractual cash flows	On demand	Less than 2 months	2-12 months	1-2 years	2-5 years	Over 5 years
Non-derivative 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**

2017 '000 AMD	Carrying amount	Contractual cash flows	On demand	Less than 2 months	2-12 months	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities								
Secured bank loans	36,075,214	37,747,505	-	-	15,944,105	12,516,744	9,286,656	-
Unsecured bank loans	2,221,470	2,229,910	-	2,229,910	-	-	-	-
Unsecured borrowings from other companies	4,512	4,512	4,512	-	-	-	-	-
Secured loans from Government of Armenia	6,793,058	10,921,116	-	497,037	492,173	975,005	2,840,138	6,116,763
Secured loans from international financial institutions	33,536,087	40,804,838	-	446,470	4,163,328	7,251,774	19,968,214	8,975,052
Trade and other payables	20,565,925	20,797,396	3,615,835	15,762,620	1,149,513	39,458	37,629	192,341
	99,196,266	**112,505,277**	**3,620,347**	**18,936,037**	**21,749,119**	**20,782,981**	**32,132,637**	**15,284,156**

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	**2018**	**2018**	**2018**	**2017**	**2017**	**2017**
Loans and borrowings	(38,614,477)	(32,228,743)	(6,513,050)	(43,714,507)	(28,116,582)	(6,793,058)
Gross exposure	**(38,614,477)**	**(32,228,743)**	**(6,513,050)**	**(43,714,507)**	**(28,116,582)**	**(6,793,058)**

The following significant exchange rates applied during the year:

in AMD	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**2018**	**2017**
USD 1	483.93	482.63	483.75	484.10
EUR 1	566.88	546.15	553.65	580.10
JPY 1	4.34	4.31	4.38	4.30

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 2018		
AMD 10% movement against USD	3,089,158	(3,089,158)
AMD 10% movement against EUR	2,578,299	(2,578,299)
AMD 10% movement against JPY	521,044	(521,044)
31 December 2017		
AMD 10% movement against USD	3,497,161	(3,497,161)
AMD 10% movement against EUR	2,249,327	(2,249,327)
AMD 10% movement against JPY	543,445	(543,445)

(v) 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 favourable 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:

	Carrying amount	
'000 AMD	**2018**	**2017**
Fixed rate instruments		
Financial liabilities	26,301,816	9,019,040
	26,301,816	**9,019,040**
Variable rate instruments		
Financial liabilities	51,177,150	69,611,301
	51,177,150	**69,611,301**

In particular, fixed-rate financial liabilities include fixed rate bank loans in total amount AMD 26,301,815 thousand of 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 fair value through profit or loss or as available-for-sale. 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		
2018		
Variable rate instruments	(409,417)	409,417
Cash flow sensitivity (net)	**(409,417)**	**409,417**
2017		
Variable rate instruments	(556,890)	556,890
Cash flow sensitivity (net)	**(556,890)**	**556,890**

23. Capital commitments

The Company enteres into several contracts related to connecting new subscribers to the electricity network. The commitments related to these contracts at 31 December 2018 amounted to AMD 4,749,851 thousand (31 December 2017: AMD 3,603,583 thousand).

24. 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 plant 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.

25. Related party disclosures

(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	2018	2017
Salaries and bonuses	**809,594**	**924,766**

(c) Other related party transactions

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
'000 AMD	**2018**	**2017**	**2018**	**2017**
Sales of power:				
Entities under common control and related to shareholders	1,172,414	500,121	322,526	49,174
Sales of goods:				
Entities under common control	293,481	106,989	114,936	496,428
Purchase of power:				
Entities under common control and related to shareholders	(17,601,757)	(15,281,429)	(1,858,539)	(1,704,745)
Prepayment for goods and services:				
Entities under common control and related to shareholders	(12,188,077)	(13,916,142)	2,871,378	8,030,129
Purchase of goods and services:				
Entities under common control and related to shareholders	(12,644,194)	(8,305,587)	(3,588,033)	(2,357,761)

26. Basis of measurement

The financial statements are prepared on the historical cost basis.

27. Significant accounting policies

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

(a) Revenue

The Company has initially applied IFRS 15 from 1 January 2018. Information about the Company's accounting policies relating to contracts with customers is provided in Note 6(d). The effect of initially applying IFRS 15 is described in Note 5.

(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 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 retranslated 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 is 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 labour, 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, plant 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 – Policy applicable from 1 January 2018

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

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: Policy applicable from 1 January 2018

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; and
- 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: Policy applicable from 1 January 2018

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, 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: Policy applicable from 1 January 2018

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 assets – Policy applicable before 1 January 2018

The Company classified its financial assets into loans and receivables category.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Loans and receivables are measured at amortised cost using the effective interest method.

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 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

Policy applicable from 1 January 2018

Financial instruments

The Company recognises loss allowances for ECLs 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 borrower 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 days 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.

Policy applicable before 1 January 2018

Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Company considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets 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. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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.

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.

28. New standards and interpretations not yet adopted

Two new standards are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have an impact on the Company's financial statements in the period of initial application.

(a) IFRS 16 *Leases*

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(i) Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases of transport facilities. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Company does not have finance lease contracts.

Based on the information currently available, the Company estimates that no significant lease liabilities will arise as at 1 January 2019 due to short nature of contracts.

(ii) Leases in which the Company is a lessor

No significant impact is expected for leases in which the Company is a lessor.

(iii) Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.