

YEREVAN THERMAL POWER CENTRE CJSC

Financial Statements
and
Independent Auditor's Report

For the year ended 31 December 2017

YEREVAN THERMAL POWER CENTRE CJSC
Annual report and financial statements
For the year ended 31 December 2017

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| | |
|----------------------------------|---|
| Country of incorporation: | 3rd Building, Arin-Berdi St. 3rd Lane, Yerevan, Republic of Armenia |
| Legal form: | Closed Joint-Stock Company |
| Principal activities: | The Company produces electricity from gas through thermal power centre |
| Director: | Sasun Khachatryan |

The Board

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

INDEPENDENT AUDITOR'S REPORT

To the Management of the "YEREVAN THERMAL POWER CENTRE" CJSC

Opinion

We have audited the financial statements of "Yerevan Thermal Power Centre" CJSC ("Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Company as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled out other ethical requirements in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3.3. of the financial statements, which describes that the Company incurred a net loss of 7,123,321 thousand Armenian Dram (AMD) during the year ended 31 Dec 2017 (for the year ended 31 Dec 2016: 1,747,856 thousand AMD), and as of that date, the Company's accumulated loss is 20,002,418 thousand AMD (as of 31 Dec 2016: 13,466,851 thousand AMD).

As stated in Note 3.3, these conditions, along with other matters as set in Note 3.3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of the management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

YEREVAN THERMAL POWER CENTRE CJSC
Statement of Financial Position
For the year ended 31 December 2017

| | Note | 2017 AMD'000 | 2016 AMD'000 |
|-------------------------------------|------|--------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 4 | 129,828,187 | 123,079,995 |
| Intangible assets | | 13,532 | 15,340 |
| Deferred tax assets | 5 | 2,764,291 | 1,695,935 |
| Non-current financial assets | 6 | 24,288 | 8,386,514 |
| | | <u>132,630,298</u> | <u>133,177,784</u> |
| Current assets | | | |
| Inventories | 7 | 5,484,273 | 5,540,199 |
| Trade and other receivables | 8 | 12,332,537 | 15,429,167 |
| Cash and cash equivalents | 9 | 6,072,915 | 1,461,395 |
| | | <u>23,889,725</u> | <u>22,430,761</u> |
| TOTAL ASSETS | | <u>156,520,023</u> | <u>155,608,545</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 10.1 | 10,424,652 | 12,047,679 |
| Paid-in-capital | 10.2 | 2,692,828 | 1,069,801 |
| Revaluation reserve | 10.4 | 8,739,014 | 10,775,254 |
| Accumulated loss | | (20,002,418) | (13,466,851) |
| | | <u>1,854,076</u> | <u>10,425,883</u> |
| Non-current liabilities | | | |
| Loans and borrowings | 11 | 115,076,282 | 112,519,349 |
| Grants related to assets | 12 | 32,289 | 33,295 |
| | | <u>115,108,571</u> | <u>112,552,644</u> |
| Current liabilities | | | |
| Loans and borrowings | 11 | 6,764,456 | 8,185,296 |
| Grants related to income | 13 | 411,828 | 417,871 |
| Trade and other payables | 14 | 32,381,092 | 24,026,851 |
| | | <u>39,557,376</u> | <u>32,630,018</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>156,520,023</u> | <u>155,608,545</u> |

The financial statements and accompanying notes were approved and authorized for issue by the management on April 18, 2018 and were signed on its behalf by:

Sasun Khachatryan, *Director*

Garri Akhoyan, *Head of Accounting Service*



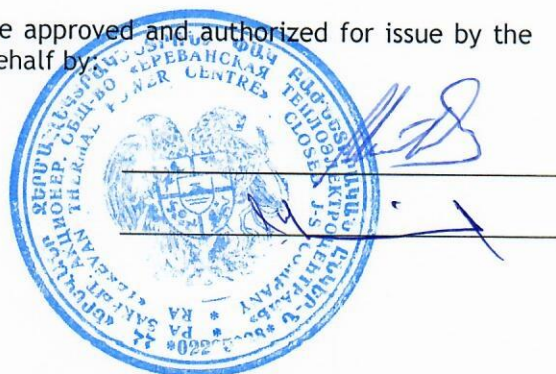
YEREVAN THERMAL POWER CENTRE CJSC
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2017

| | Note | 2017 AMD'000 | 2016 AMD'000 |
|--|------|--------------------|--------------------|
| Revenue | 15 | 70,897,868 | 70,031,636 |
| Cost of sales | 16 | (63,695,929) | (63,024,140) |
| Gross profit | | 7,201,939 | 7,007,496 |
| Other income | | 76,539 | 459,376 |
| Administrative expenses | 17 | (563,976) | (601,260) |
| Other expenses | 18 | (1,330,655) | (2,735,603) |
| Results from operating activities | | 5,383,847 | 4,130,009 |
| Financial income | 19 | 348,910 | - |
| Financial costs | 19 | (1,221,844) | (1,343,880) |
| Impairment of financial assets | | (8,457,039) | - |
| Impairment of PPE | | (86,606) | - |
| Foreign currency exchange gain/(loss), net | 20 | (3,855,641) | (3,852,409) |
| Gain/(loss) from disposal of non-current assets, net | | 58,818 | - |
| Loss before income tax | | (7,829,555) | (1,066,280) |
| Income tax reimbursement | 21 | 706,234 | (681,576) |
| Loss for the year | | (7,123,321) | (1,747,856) |
| Other comprehensive income | | | - |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Net increase/(decrease) from PPE revaluation | | (1,810,608) | - |
| Tax consequence of PPE revaluation | | 362,122 | - |
| Other comprehensive income for the year | | (1,448,486) | - |
| Total comprehensive result for the year | | (8,571,807) | (1,747,856) |

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Sasun Khachatryan, *Director*

Garri Akhoyan, *Head of Accounting Service*



YEREVAN THERMAL POWER CENTRE CJSC
Statement of cash flows
For the year ended 31 December 2017

| | 2017 AMD'000 | 2016 AMD'000 |
|--|---------------------------|---------------------------|
| <i>Cash flows from operating activities</i> | | |
| Cash received from sales | 51,727,009 | 59,727,693 |
| Cash paid to suppliers | (39,163,283) | (60,771,672) |
| Cash paid to employees | (528,732) | (474,483) |
| Taxes paid | (1,288,088) | (2,766,815) |
| <i>Net cash flows from operating activities</i> | <u>10,746,906</u> | <u>(4,285,277)</u> |
| <i>Cash flows from investing activities</i> | | |
| Repayment of provided borrowings | - | 1,702 |
| Interest income on deposits | 348,910 | |
| Payments on PPE acquisition | (2,513,550) | (51,343) |
| Proceeds from sale of PPE | 347,805 | - |
| Payments on intangible assets acquisition | - | (6,026) |
| <i>Net cash flows from investing activities</i> | <u>(1,816,835)</u> | <u>(55,667)</u> |
| <i>Cash flows from financing activities</i> | | |
| Proceeds from loans and borrowings | 7,156,398 | 21,653,110 |
| Repayment of loans and borrowings | (10,202,002) | (19,341,038) |
| Interest paid | (1,279,042) | (1,329,931) |
| Proceeds from issue of shares | - | 1,789,018 |
| <i>Net cash flows from financing activities</i> | <u>(4,324,646)</u> | <u>2,771,159</u> |
| <i>Total net cash flows</i> | <u>4,605,425</u> | <u>(1,569,785)</u> |
| Effect on cash from conversions | (13,403) | (84,644) |
| Exchange gain/(loss) on cash and cash equivalents | 19,498 | 15,968 |
| <i>Cash and cash equivalents at the beginning of the year</i> | <u>1,461,395</u> | <u>3,099,856</u> |
| <i>Cash and cash equivalents at the end of the year</i> | <u>6,072,915</u> | <u>1,461,395</u> |

The financial statements and accompanying notes were approved and authorized for issue by the management on April 18, 2018 and were signed on its behalf by:

Sasun Khachatryan, *Director*

Garri Akhoyan, *Head of Accounting Service*



YEREVAN THERMAL POWER CENTRE CJSC
Index to notes forming part of the financial statements
For the year ended 31 December 2017

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1. General Information

1.1. The Company

“Yerevan TPC” enterprise was established in 1963. In 1997 “Yerevan Thermal Power Centre” state closed joint-stock company (the “Company”) was founded.

The Company's main activities include:

- production and sale of electrical and thermal energy;
- Import and export of natural gas and electricity.

The Company's activities, including tariff policy are regulated by the Public Services Regulatory Commission of the Republic of Armenia.

Design works of Yerevan Thermal Power Centre began in 1959 by “Teploelectroproject” Institute of Soviet Union. As a site for construction of the plant it was chosen the southern industrial area of Yerevan, which is one of the most power-consuming industrial centers of Armenia. Construction of Yerevan Thermal Power Centre began in 1961. First one of the seven turbine installations of Yerevan TPP with 50MW capacity was commissioned in 1963, while the last one in 1967.

Being commissioned more than 40 years ago the units and auxiliary equipment of the power plant have undergone a regular tear and wear and became obsolescent by exhausting their normative operating resource, which naturally resulted in significant dropping of the operation reliability and the efficiency of generation of the electrical and heat energy by the power plant.

Ministry of Energy and Natural Resources of the Republic of Armenia and the Company commenced the reconstruction program of Yerevan TPC by constructing a new state-of-the-art combined cycle power unit with natural gas firing. The loan agreement on implementation of “Yerevan Combined Cycle Co-generation Power Plant Project” was signed on March 29, 2005 between the Government of the Republic of Armenia (RA) and Japan International Cooperation Agency (JICA)). Based on the said agreement the JICA provided loan to the Government of the RA with preferential terms by extending 26,409 million Japanese Yens. Construction of the new plant started in 2006 and was completed in 2010; the new plant has been put in use in April 2010.

Owing to the realization of new technology the efficiency of the power plant was increased to almost 70%, levels of emissions were reduced significantly, as well as consumption quantity of drinking quality water by more than 3 times.

The average number of employees of the Company during 2017 was 234 employees (2016: 254 employees).

The change of Charter of the Company has been registered in state register on September 08, 2006, registration number is 269.070.00255, and certificate number is 01 A 004948.

Registration address of the Company is 3 Building, Arin-Berdi St. 3rd Lane, Yerevan, 0053, RA.
Tax payer code is 02205028.

1.2 Share Capital

Republic of Armenia is the sole Shareholder in reporting and prior years.

Share capital of the Company as at 31.12.2017 was 10,424,652 thousand drams (as at 31.12.2016: 12,047,679 thousand drams). Share capital of the Company consists of 2,273,147 pieces of nominal registered shares with nominal value of 4,586 drams of which of them. (as at 31.12.2016: 5,300 drams).

2. Basis of preparation

2.1 Basis of preparation and presentation of Financial Statements

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards (hereinafter - IFRSs). IFRSs are Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise:

- International Financial Reporting Standards;
- International Accounting Standards;
- International Financial Reporting Interpretations Committee (IFRIC) Interpretations; and
- Standing Interpretations Committee (SIC) Interpretations.

The principal accounting policies applied in the preparation of these financial statements are set in note 3. These policies have been consistently applied.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.4.

2.2 Changes in accounting policies

New standards, interpretations and amendments effective from 1 January 2017

- Annual Improvements to IFRSs (2014 - 2016 Cycle): IFRS 12 Disclosure of interests in other entities
- IAS 12 Income Taxes (Amendment - Recognition of Deferred Tax Assets for Unrealized Losses)
- IAS 7 Statement of Cash Flows (Disclosure Initiative Amendments);

None of the above mentioned had significant effect on the Company's financial statements.

2.3 New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments that are not yet effective and have not been applied early in the financial statements will have or may have an impact on the Company's future financial statements.

| # | Pronouncement | Nature of the impending change in accounting policy on adoption of the pronouncement | Date by which application of the IFRS is required | Date Company plans to apply the pronouncement initially | Impact of initial application on financial statements |
|---|--|--|---|---|---|
| 1 | IFRS 9 Financial Instruments (2014) | IFRS 9 Financial Instruments (2014) incorporates the final requirements on all three phases of the financial instruments projects - classification and measurement, impairment, and hedge accounting. | 1 January 2018 Early adoption permitted | 1 January 2018 | Impact is still to be considered |
| 2 | IFRS 15, Revenue from contracts with customers | IFRS 15 has a single model to deal with revenue from contracts with customers. Its core principal is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. | 1 January 2018 Early adoption permitted | 1 January 2018 | Impact is still to be considered |
| 3 | IFRS 16, Leases (2017) | Under IFRS 16 a lessee recognizes a right-of-use assets and a lease liability. The right-of-use assets is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of lease payments payable over the lease term. | 1 January 2019 Early adoption permitted | 1 January 2019 | Impact is still to be considered |
| 4 | IFRIC 22 Foreign Currency Transactions and Advance Consideration | The interpretation addresses foreign currency transactions or parts of transactions where: (a) there is consideration that is denominated or priced in a foreign currency; the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepayment asset or deferred income liability is non-monetary. | 1 January 2018 Early adoption permitted | 1 January 2018 | Impact is still to be considered |
| 5 | IFRIC 23 Uncertainty Over Income Tax | The interpretation addresses how to determine the taxable profit(loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over treatment under IAS 12, Income Tax. | 1 January 2019 Early adoption permitted | 1 January 2019 | No impact envisaged |

3. Significant accounting policies

3.1 Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the currency in which the Company's financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

3.2 Basis for measurement

The financial statements are prepared on the historical cost basis, except the following items:

- PPE measured at revaluated amounts (note 4).

3.3 Going concern

The Company incurred financial losses in the reporting and previous years, particularly for the year ended 31 Dec 2017 financial loss of 7,123,321 thousand AMD (for year ended 31 Dec 2016: 1,747,856 thousand AMD); which resulted to accumulated loss as at 31 Dec 2017: 20,002,418 thousand drams (as at 31 Dec 2016: 13,466,851 thousand drams).

Management of the Company develops and consistently performs financial recovery program, permanent control and management of liquidity. The Company's 2018 year Business plan is based on the following:

- During years 2016 and 2017, high interest rate commercial loans of the Company and the majority of the significant debts to the gas supplier were settled within the scope of the "Energy Sector Financial Recovery Program" implemented in accordance with the IBRD 8615-AM Loan Agreement; as well as the reconstruction of 220/110/35 kV substation will be finished in 2018. The above-mentioned 30 million low interest rate loan repayment period is 25 years (14.5 years grace period).
- The Load bearing schedule is approved by the RoA Public Services Regulatory Commission ("PSRC") in December 2017 and agreed with the Electric Power System Operator (EAO).
- The tariffs for electricity and power set by the PSRC, according to which the delivered electricity tariff from 01.02.2018 is 20.284 AMD/kWh instead of the previous 15.459 AMD/kWh (31% increase).
- As a result of the reconstruction of the power plant, a new substation and a gas turbine with a steam-cycle, the production and technical indicators will be significantly improved. For this purpose, the company will invest cash balance as of 31 Dec 2017 in the amount of 5,492,000 thousand AMD, thus will not attract additional commercial loans.
- According to the RoA Government Decision on Nov 2017, in the scope of investment programs the company will get tax relief from paying VAT of 2,098,800 thousand AMD and custom duty of 527,600 thousand AMD on imported equipment.
- Implementation of HR development effective strategy. As a result of the implementation of investment program it is planned to increase the number of jobs by 20 with an average salary of 250 thousand AMD.
- As a result of MXL2, in 2018 the Company will provide the following technical and economic efficiency:
 - ✓ Reduction of specific costs of fuel.
MXL mode - 252.8 g/kWh instead of 258.1 g/kWh, saving up to 5.3 g/kWh
 - ✓ As a result of conditional fuel consumption's reduction by 5.3 gr/kWh, the Company will save 2.1 million m³ of natural gas or 205.2 million drams,
Calculation - 5.3 gr/kW x h x 470.22 kW x h x 7000 kcal / kg / 8120 kcal / m³ = 2.1 million m³ natural gas
2.1 million m³ natural gas x 201.75 \$/thousand m³ x 484.37 = 205,2 million drams
 - ✓ As a result of 7,0 MW capacity growth of the power block in 2018, gross product's useful delivery growth will be 347.59 million drams
Calculation - 7000 kW x 102 days x 24 h x 20.284 AMD / kW x h = 347.59 million AMD
 - ✓ As a result of the reduction of one C indictment, the power block's annual useful delivery growth will make 748.5 million drams

Calculation - $(205000 \text{ kW} \times 60 \text{ days} \times 24 \text{ h} \times 20.284 \text{ AMD} / \text{kW} \times \text{h}) / 8 \text{ years} = 748.5$ million AMD / year.

- Based on the fact that the volume of natural gas purchased from “Gazprom Armenia CJSC for electricity supply in the calculation of current tariffs does not have any normative character, we can state that in 2018, the company will purchase 2.1 million cubic meters less volume of natural gas from “Gazprom Armenia” CJSC therefore the Company will save of 205.2 million drams ensuring the implementation of expenditure items.

As result of the Company's business plans, the Company expects financial profitability since 2018 (1,739,400 thousand AMD for 2018) and ensuring continued liquidity.

After making assessments, the Company's management has a reasonable expectation that the Company is able to continue its operational existence in the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

3.4 Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRSs. Actual results may differ from those estimates.

3.4.1 Judgments having significant impact on the application of accounting policy

The following are the significant judgments made by the Company's management for applying the Company's accounting policies that have material impact on the amounts recognized in the financial statements:

- a) Revenue recognition - Principal or agent? (note 15.g.)

3.4.2 Estimates and assumptions having significant impact on the application of accounting policy

The following are the significant estimates and assumptions made by the Company's management for applying the Company's accounting policies that have material impact on the amounts recognized in the financial statements:

- a) Fair value measurement - Note 4.d and 26

Some assets and liabilities included in the Company's financial statements require measurement at and/or disclosure of fair value (see note 20).

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy');

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

b) Useful lives of property, plant and equipment - Notes 4.f

Management has estimated useful lives of the property, plant and equipment based on its best estimate of the economic lives of the assets as well as its intentions to continue exploitation of the those assets. Management believes that estimated useful lives of the property, plant and equipment are not materially different from economical lives of those assets. If actual useful lives of property, plant and equipment are different from estimates and financial statements may be materially different.

c) Impairment of trade receivables and other financial assets - Notes 6 and 8

The Company regularly reviews its financial assets to access impairment. As of 31 December 2017, the carrying amount of the Company's impaired receivables was 404,575 thousand drams (31 December 2016: 406,513 thousand drams), and carrying amount of other financial assets 11,210,964 thousand drams (31 December 2016: 11,210,914 thousand drams).

The Company uses judgment to estimate the amount of any impairment loss in cases where a customer or a borrower are in financial difficulties estimating the changes of future cash flows. If the actual recoverability of receivables and other financial assets varies from the estimated, the carrying amounts of those assets may be different.

3.5 Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions. Settlement rate established by the Central Bank of the Republic of Armenia is taken as a currency. At the reporting dates:

- a) Foreign currency monetary items are reported (restated) using the closing rate (reporting date);
- b) Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

Foreign exchange gains and losses arising on the settlement of transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

3.6 Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such property, plant and equipment is recognized in other comprehensive income (except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged) and is shown as revaluation reserve in shareholder's equity. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

The revaluation surplus is transferred to the accumulated profit as the asset is used by the Company. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profit.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

3.7 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

3.8 Inventories

Costs comprise charges incurred in bringing inventory to its present location and condition. The cost of inventories of items that are ordinarily interchangeable shall be assigned by using the weighted average principle.

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

Inventories are valued at the lower of cost or net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

3.9 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets other than hedging instruments are divided into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income. Refer to note 23 for a summary of the Company's financial assets by category.

Generally, the Company recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables, borrowings provided as well as cash and bank balances.

Loans and receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the assets. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to profit or loss of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable and loans for which collection is not considered probable are written-off.

Cash and bank balances

The Company's cash and bank balances comprise cash in hand, bank accounts and cash in transit.

ii. Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, with subsequent changes in value recognized in other comprehensive income. Gains and losses arising from financial instruments classified as available-for-sale are only recognized in profit or loss when they are sold or when the investment is impaired. In the case of impairment, any loss previously recognized in other comprehensive income is transferred to profit or loss. Losses recognized in profit or loss on equity instruments are not reversed through profit or loss but are charged to equity. Losses recognized in prior period profit or loss resulting from the impairment of debt securities are reversed through profit or loss, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include loans and borrowings and trade and other payables. A summary of the Company's financial liabilities by category is given in note 23.

i. Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period

of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

ii. *Trade and other payables*

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.10 Impairment

At each reporting date, property and equipment, and intangibles assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognized immediately in profit or loss.

The Company assesses at each reporting date whether there is any objective indication that financial assets (or group of similar assets) measured at cost or amortized costs may be impaired. If any such indication exists, the impairment loss is recognized directly in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3.11 Equity

Equity instruments issued by the Company are recorded at the proceeds received.

Share capital represents the nominal value of shares that have been issued.

Revaluation reserve comprises gains and losses from the revaluation of property, plant and equipment.

Dividends are recognized as a liability in the period in which they are declared.

3.12 Grants

Grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Grants with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

3.13 Short-term employee benefits

Short-term employee benefits include wages, salaries short-term compensated absences (such as paid annual leave and paid sick leave), and bonuses.

3.14 Related Party Disclosures

3.14.1. Related party

A party is related to an entity if:

- a) directly, or indirectly through one or more intermediaries, the party
 - controls Company (50% and more participation),
 - is under common control,
 - has an interest in the entity that gives it significant influence over the entity (20-50% participation/share),
 - has joint control over the entity;
- b) the party is a member of the key management personnel:
 - director,
 - persons who are directly responsible for planning, guidance and control of the Company;
- c) Close members of the family of an individual
 - the individual's domestic partner,
 - Children.

3.14.2. Transactions with related parties

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

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

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

3.14.3 Key management personnel disclosures

An entity shall disclose key management personnel:

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

3.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company.

Revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Revenue of the Company derives from sale of electricity, natural gas and provision of capacity, as well as exchange of electricity and gas.

Exchange of goods

When goods are exchanged or swapped for goods which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue.

When goods are sold in exchange for dissimilar goods, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods received,

adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods received cannot be measured reliably, the revenue is measured at the fair value of the goods given up, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

3.16 Income tax

Income tax on current year profit or loss consists of current tax and deferred tax.

Current tax is the amount of income taxes payable/(refundable) in respect of the taxable profit/(loss) for a period. Current tax is recognized in the net profit or loss of the period.

Deferred taxes (deferred tax liabilities and deferred tax assets) of the Company are conditioned by carry-forward of temporary differences (taxable and deductible temporary differences), and carry-forward of unused tax losses.

Deferred taxes arising as a result of temporary differences are calculated using balance sheet liability method, based on the temporary differences between the carrying amounts of assets and liabilities used for preparation of financial statements, and amounts used for taxation purposes (tax base).

A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

3.17.1 Changes in accounting policies

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

3.17.2 Changes in accounting estimates

The effect of a change in an accounting estimate shall be recognized by including it in profit or loss in:

- a) the period of the change, if the change affects that period only; or
- b) the period of the change and future periods, if the change affects both.

3.17.3 Prior period errors

Prior Period Errors are omissions from, and misstatements in, prior period financial statements resulting from the failure to use, or the misuse of, reliable information that:

- a) was available when financial statements for those periods were authorized for issue; and
- b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Prior period material errors are corrected retrospectively after their discovery by:

- a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

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4. Property, plant and equipment

| | Buildings and constructions | Land | Capital construction-in-process | Transmission devices | Substation construction-in-process | Spare parts subject to installation | Power plants, equipment | Vehicles | Fixture, fittings and other | Total |
|---|-----------------------------|-----------|---------------------------------|----------------------|------------------------------------|-------------------------------------|-------------------------|-----------|-----------------------------|-------------|
| Cost or Revalued amount | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 |
| As at 01.01.2016 | 21,989,497 | 5,565,000 | 2,558,278 | 8,161,925 | - | - | 135,175,227 | 473,952 | 1,701,625 | 175,625,504 |
| Additions | 167 | - | - | - | - | - | 70,190 | - | 17,076 | 87,433 |
| Deductions | - | - | - | - | - | - | (9,511) | (187,838) | (7,780) | (205,129) |
| Reclassification | 1,799,740 | - | (937,487) | (22,369) | - | - | (725,055) | (62,327) | (52,502) | - |
| As at 31.12. 2016 | 23,789,404 | 5,565,000 | 1,620,791 | 8,139,556 | - | - | 134,510,851 | 223,787 | 1,658,419 | 175,507,808 |
| Additions | 26,095 | - | - | 28,761 | 3,044,190 | 10,527,616 | 37,202 | 63,834 | 60,023 | 13,787,721 |
| Deductions | (23,378) | (176,667) | - | (1,120) | - | (845,539) | (74,947) | (31,835) | (24,150) | (1,177,636) |
| Reclassification | 1,850,575 | - | 59,548 | - | - | - | - | - | - | 1,910,123 |
| As at 31.12. 2017 | 25,642,696 | 5,388,333 | 1,680,339 | 8,167,197 | 3,044,190 | 9,682,077 | 134,473,106 | 255,786 | 1,694,292 | 190,028,016 |
| Accumulated depreciation, Revaluation effect, impairment losses | | | | | | | | | | |
| As at 01.01.2016 | 3,018,497 | - | 1,558,463 | 3,413,147 | - | - | 39,448,502 | 174,878 | 304,781 | 47,918,268 |
| Additions | 679,626 | - | - | 660,443 | - | - | 3,110,581 | 45,394 | 79,846 | 4,575,890 |
| Deductions | - | - | - | - | - | - | (8,879) | (55,552) | (1,914) | (66,345) |
| Reclassification | - | - | - | - | - | - | 20 | - | (20) | - |
| As at 31.12.2016 | 3,698,123 | - | 1,558,463 | 4,073,590 | - | - | 42,550,224 | 164,720 | 382,693 | 52,427,813 |
| Additions | 680,995 | - | - | 671,156 | - | - | 2,588,647 | 41,645 | 97,525 | 4,079,968 |
| Deductions | (3,299) | - | - | (1,064) | - | - | (62,971) | (30,603) | (17,352) | (115,289) |
| Reclassification | - | - | - | 1,064 | - | - | (1,064) | - | - | - |
| Revaluation effect | (4,375,819) | 2,327,435 | - | 2,160,555 | - | - | 3,661,721 | (53,161) | 86,606 | 3,807,337 |
| As at 31.12.2017 | - | 2,327,435 | 1,558,463 | 6,905,301 | - | - | 48,736,557 | 122,601 | 549,472 | 60,199,829 |
| Current value | | | | | | | | | | |
| As at 01.01.2016 | 18,971,000 | 5,565,000 | 999,815 | 4,748,778 | - | - | 95,726,725 | 299,074 | 1,396,844 | 127,707,236 |
| As at 31.12.2016 | 20,091,281 | 5,565,000 | 62,328 | 4,065,966 | - | - | 91,960,627 | 59,067 | 1,275,726 | 123,079,995 |
| As at 31.12.2017 | 25,642,696 | 3,060,898 | 121,876 | 1,261,896 | 3,044,190 | 9,682,077 | 85,736,549 | 133,185 | 1,144,820 | 129,828,187 |

a) PPE additions consist

| | AMD'000 |
|-------------------------------------|-------------------|
| Spare parts subject to installation | 10,502,107 |
| Capital construction-in-process* | 3,044,190 |
| Capital repairs | 89,366 |
| Purchased from suppliers | 59,680 |
| Other proceeds | 92,378 |
| | <u>13,787,721</u> |

(*)Capital construction-in-process

| | AMD'000 |
|--|------------------|
| Goods in transit | 1,889,248 |
| Contractor's construction cost | 962,023 |
| Construction Taxes (Non-Resident Income Tax) | 144,076 |
| Loan interest capitalization | 48,843 |
| | <u>3,044,190</u> |

The Company implements reconstruction of the 220/110/35 kW Substation under the Credit Agreement No 8495-AM, signed on April 8, 2008, between the RoA and the International Bank for Reconstruction and Development (IBRD) within the scope of the "Electricity Transmission Network Improvement". The goal of the project is to improve and strengthen the power transmission network.

The principal direction of the project, implemented by the Company, is the reconstruction of 220/110/35 kW substation, including complete replacement of basic equipment, installation of control and data acquisition system, construction of a new building for management rooms and transfer and reunion of air lines required for power supply from the substation.

The 220/110/35 kW substation of the Company, which was built in 1962, working for more than 50 years, has physically and technologically obsoleted, and has high risk of disruption, so it will be restored within the scope of the project. The substation is the only connecting link between a steam-cycle power block and an energy system, and consequently the reliability of the substation is due to the uninterrupted operation of the power unit and the uninterrupted transmission of electricity to the power system.

As a result, the implementation of the project will contribute to the reduction of emergency situations and improvement of the power transmission network and system reliability.

Funding sources are:

- IBRD Loans: 30,205,514 USD
- The co-financing amount provided by the Government of Armenia: 7,532,500 USD.

Within the scope of the project cost share financing is envisaged at 80:20, where 80% of expenditures (including taxes) will be financed from IBRD loans, and 20% (including taxes), co-financing of the RoA state budget.

Within the scope of the program, the co-financing provided by the state budget is provided to the Company as a loan, the repayment of which is envisaged in parallel with repayment of the loan attracted from external sources.

b) Power plants

As described in note 1, the new power plant unit with 205MW nominal capacity and 103GCal/h heat export capacity is exploited at the Company since year 2010. The carrying amount of the unit as of December 31, 2017 is 102,287,917 thousand AMD (December 31, 2016: 104,127,086 thousand AMD). Included in the property, plant and equipment is the old power plant at the carrying amount of 9,960,453 thousand AMD as of December 31, 2017 (December 31, 2016: 12,570,460 thousand AMD). Exploitation of this power plant has been suspended since exploitation of the new plant, and the latter has been held as a reserve capacity, as well as observes it's disposal. Being commissioned more than 40 years ago the units and auxiliary equipment of the power plant have undergone a regular tear and wear and became obsolescent by exhausting their normative operating resource, which naturally resulted in significant dropping of the operation reliability and the efficiency of generation of the electrical and heat energy by the power plant.

c) Limitations on PPE

Property, plant and equipment in amount of 7,260,510 thousand drams are pledged as a security for loans and borrowings as of December 31, 2017 (as at December 31, 2016: nil).

d) Fair value Measurement -Revaluation of PPE

The Company's land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The fair value measurement of the Company's land and plant as at 31 December 2017 was performed by "Artin Enterprise" LTD, an independent valuer not related to the Company. The firm and its valuers have related qualifications (CIPS, CCIM, NAR) and are member of international valuers associations such as RVU (Russia), and recent experience in the fair value measurement of properties in the relevant locations.

The fair value of the land was determined based on the market comparable approach that reflects the recent transaction prices for similar properties.

The fair value of buildings, such as those related to the new power plant build in year 2010, that will be continued to be used for ordinary activities of the Company was determined using the cost approach that reflects the cost to a market participant to acquire or construct assets of comparable utility and age, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic obsolescence.

The fair value of equipment that will be continued to be used, such as those installed at new power plant, was determined using the market value of identical asset adjusted for obsolescence.

The fair value of buildings and equipment that will be disposed or dismantled, such as those related to the old power plant build in year 1963, was determined based on market value of disposed property or any valuable dismantled materials, less cost of dismantling and selling.

Revaluation significant inputs include:

- The square meter of land was valued by 4 thousand AMD, resulting to total valuation of land 3,060,898 thousand AMD;
- The square meter of building related to new plant constructed in 2010 was valued by 4 thousand AMD; resulting to total value of new plant building to 118,753,854` adjusted by the obsolescence of 16,465,937 thousand AMD (average 14%), thus resulting to net valuation of 102,287,917 thousand AMD;
The slight increase in the obsolescence factor would result in a significant decrease in the fair value of the building, and a slight increase in the estimated constructions costs would result in a significant increase in the fair value of the buildings, and vice versa.
- The square meter of building related to old plant constructed in 1963 was valued by 22,695,410 thousand AMD, adjusted by the obsolescence of 12,734,957 thousand AMD (average 56%), thus resulting to net valuation of 9,960,453 thousand AMD;

The slight increase in the obsolescence factor would result in a significant decrease in the fair value of the building, and a slight increase in the estimated constructions costs would result in a significant increase in the fair value of the buildings, and vice versa.

Due to their unique nature, the fair value of revalued land, building and equipment are classified into Level 3 of the fair value hierarchy as at reporting date.

The previous fair value measurement of the Company's property, plant and equipment was carried out by an independent valuer as of December 21, 2012.

If the property, plant and equipment were presented at historical cost, their carrying amounts would be 104,429,452 thousand drams (as of December 31, 2016, 108,499,056 thousand drams).

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d.1) Old power plant

Thousand AMD

| Class of PPE | Historical cost | Accumulated depreciation, impairment loss | Carrying amount | Revaluated amount | Revaluation increase/(decrease) |
|---------------------------------|-------------------|---|-------------------|-------------------|---------------------------------|
| Buildings and constructions | 5,043,273 | (1,105,976) | 3,937,297 | 5,997,272 | 2,059,975 |
| Transmission devices | 4,981,778 | (4,186,629) | 795,149 | 1,263,016 | 467,867 |
| Machinery and equipment | 35,430,151 | (27,944,135) | 7,486,016 | 2,362,694 | (5,123,322) |
| Vehicles | 255,785 | (175,761) | 80,024 | 133,185 | 53,161 |
| Fixture and fittings, other PPE | 295,757 | (170,519) | 125,238 | 82,410 | (42,828) |
| Capital construction-in-process | 1,620,791 | (1,558,463) | 62,328 | 121,876 | 59,548 |
| Land | 5,035,000 | - | 5,035,000 | 2,569,978 | (2,465,022) |
| | 52,662,535 | (35,141,483) | 17,521,052 | 12,530,431 | (4,990,621) |

d.2) New power plant

Thousand AMD

| Class of PPE | Historical cost | Accumulated depreciation, impairment loss | Carrying amount | Revaluated amount | Revaluation increase/(decrease) |
|---------------------------------|--------------------|---|-------------------|--------------------|---------------------------------|
| Buildings and constructions | 18,748,847 | (3,269,843) | 15,479,004 | 19,645,423 | 4,166,419 |
| Transmission devices | 3,186,539 | (558,117) | 2,628,422 | - | (2,628,422) |
| Machinery and equipment | 97,249,185 | (17,130,701) | 80,118,484 | 81,580,085 | 1,461,601 |
| Vehicles | - | - | - | - | - |
| Fixture and fittings, other PPE | 1,398,534 | (292,347) | 1,106,187 | 1,062,409 | (43,778) |
| Capital construction-in-process | - | - | - | - | - |
| Land | 353,333 | - | 353,333 | 490,920 | 137,587 |
| | 120,936,438 | (21,251,008) | 99,685,430 | 102,778,837 | 3,093,407 |

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d.3) Revaluation result and its impact on revaluation reserve, income tax and profit or loss:

| Class of PPE | Old Plant and Thermal Networks | | New Plant | | Total | | Revaluation result: | |
|-------------------------------------|--------------------------------|----------------------|----------------------------------|----------------------|----------------------------------|----------------------|--|-----------------|
| | Carrying amount 31.12.2017 | Revaluated amount | Carrying amount 31.12.2017 | Revaluated amount | Carrying amount 31.12.2017 | Revaluated amount | Revaluation reserve increase/(decrease) | Profit or loss |
| Buildings and constructions | 3,937,297 | 5,997,272 | 15,479,004 | 19,645,423 | 19,416,301 | 25,642,695 | 6,226,394 | - |
| Transmission devices | 795,149 | 1,263,016 | 2,628,422 | - | 3,423,571 | 1,263,016 | (2,160,555) | - |
| Machinery and equipment | 7,486,016 | 2,362,694 | 80,118,484 | 81,580,085 | 87,604,500 | 83,942,779 | (3,661,721) | - |
| Vehicles | 80,024 | 133,185 | - | - | 80,024 | 133,185 | 53,161 | - |
| Fixture and fittings, other PPE | 125,238 | 82,410 | 1,106,187 | 1,062,409 | 1,231,425 | 1,144,819 | - | (86,606) |
| Capital construction- in-process | 62,328 | 121,876 | - | - | 62,328 | 121,876 | 59,548 | - |
| Land | 5,035,000 | 2,569,978 | 353,333 | 490,920 | 5,388,333 | 3,060,898 | (2,327,435) | - |
| PPE | 17,521,052 | 12,530,431 | 99,685,430 | 102,778,837 | 117,206,482 | 115,309,268 | (1,810,608) | (86,606) |
| Tax effect | | | | | | | 362,122 | 17,321 |
| Result, net of tax | | | | | | | (1,448,486) | (69,285) |

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e) PPE at zero carrying amount

The cost of an item of property, plant and equipment with carrying value of zero AMD as of December 31, 2017 is 10,550,193 thousand drams (December 31, 2016: 7,783,333 thousand drams).

f) PPE depreciation

Depreciation is charged to profit or loss on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

| | |
|-----------------------------|---------------|
| Buildings and constructions | - 20-40 years |
| Power plants | - 40 years |
| Transmission devices | - 5-40 years |
| Machinery and equipment | - 5-40 years |
| Vehicles | - 5 years |
| Fixture and fittings | - 5-40 years |
| Other | - 2-10 years. |

Depreciation expense has been charged as follows:

| | 2017 AMD'000 | 2016 AMD'000 |
|-----------------------------------|------------------|------------------|
| Cost of sales (note 16) | 3,279,910 | 3,131,774 |
| Administrative expenses (note 17) | 59,405 | 99,242 |
| Other expenses (note 18) | 740,653 | 1,344,874 |
| | <u>4,079,968</u> | <u>4,575,890</u> |

5. Deferred tax assets

| | 2017 AMD'000 | 2016 AMD'000 |
|------------------------------|------------------|------------------|
| <i>Opening balance</i> | 1,695,935 | 2,377,511 |
| Recognized in profit or loss | 706,234 | (681,576) |
| Recognized in equity | 362,122 | |
| <i>Closing balance</i> | <u>2,764,291</u> | <u>1,695,935</u> |

Deferred tax assets have been recognized for tax losses and temporary differences to the extent that the Company expects they are recoverable.

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Deferred income taxes for the year ended December 31, 2017 can be summarized as follows:

| | January 1, 2017 AMD'000 | Recognized in profit or loss AMD'000 | Recognized in equity AMD'000 | December 31, 2017 AMD'000 |
|--|-------------------------------|---|------------------------------------|---------------------------------|
| <i>Deferred income tax assets</i> | | | | |
| Non-current financial assets | 650,663 | 1,591,529 | - | 2,242,192 |
| Trade and other receivables | 310 | 99,059 | - | 99,369 |
| Trade and other payables | 26,196 | - | - | 26,196 |
| Impairment of inventory | 2,501 | (2,501) | - | - |
| Tax loss | 3,682,045 | (1,525,100) | - | 2,156,945 |
| Provision on employee benefits | - | 1,036 | - | 1,036 |
| | 4,361,715 | 164,023 | - | 4,525,738 |
| <i>Deferred income tax liabilities</i> | | | | |
| Property, plant and equipment | 2,665,780 | (542,211) | (362,122) | 1,761,447 |
| | 2,665,780 | (542,211) | (362,122) | 1,761,447 |
| <i>Net position - deferred income tax assets</i> | 1,695,935 | 706,234 | 362,122 | 2,764,291 |

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

| | January 1, 2016 AMD'000 | Recognized in profit or loss AMD'000 | December 31, 2016 AMD'000 |
|--|----------------------------|--|------------------------------|
| <i>Deferred income tax assets</i> | | | |
| Non-current financial assets | 4,213,575 | (3,562,912) | 650,663 |
| Trade and other receivables | 1,033,924 | (1,033,614) | 310 |
| Trade and other payables | 31,017 | (4,821) | 26,196 |
| Impairment of inventory | | 2,501 | 2,501 |
| Tax loss | - | 3,682,045 | 3,682,045 |
| | 5,278,516 | (916,801) | 4,361,715 |
| <i>Deferred income tax liabilities</i> | | | |
| Property, plant and equipment | 2,901,005 | (235,225) | 2,665,780 |
| | 2,901,005 | (235,225) | 2,665,780 |
| <i>Net position - deferred income tax assets</i> | 2,377,511 | (681,576) | 1,695,935 |

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6. Non-current financial assets

2017

| | Gross amount AMD'000 | Impairment allowance AMD'000 | Carrying amount AMD'000 |
|-------------------------------|-------------------------|------------------------------------|----------------------------|
| Borrowings provided (b) | 10,513,802 | (10,489,514) | 8,386,464 |
| Investments in securities* | 721,400 | (721,400) | - |
| Investment in joint venture** | 50 | (50) | 50 |
| | <u>11,235,252</u> | <u>(11,210,288)</u> | <u>8,386,514</u> |

2016

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

(*) Related to "Nairit Plant" CJSC.

(**) Related to "Qimprom Management" CJSC.

a) Movement of the impairment allowance

| | 2017 AMD'000 | 2016 AMD'000 |
|---|-------------------|-------------------|
| Opening balance | 2,848,738 | 21,247,230 |
| Increase of allowance | 8,362,226 | - |
| Decrease of allowance (disposal of financial asset) | - | (18,398,492) |
| Closing balance | 11,210,964 | 2,848,738 |

b) Borrowings provided

| Borrower | Opening balance as at 01.01.2017 AMD'000 | Impairment loss AMD'000 | Closing balance as at 31.12.2017 AMD'000 |
|---------------------------|--|----------------------------|--|
| "Reception House" CJSC | 24,288 | - | 24,288 |
| "Qimprom Management" CJSC | 10,489,514 | (10,489,514) | - |
| Total | 10,513,802 | (10,489,514) | 24,288 |

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7. Inventories

| | 2017 AMD'000 | 2016 AMD'000 |
|------------------------|------------------|------------------|
| Spare parts | 4,373,004 | 4,483,132 |
| Materials | 950,659 | 900,835 |
| Construction materials | 77,902 | 85,082 |
| Other | 82,708 | 71,150 |
| | 5,484,273 | 5,540,199 |

8. Trade and other receivables

| | 2017 AMD'000 | 2016 AMD'000 |
|---|-------------------|-------------------|
| Trade receivables | 6,862,819 | 7,375,957 |
| Allowances for doubtful trade receivables (c) | (404,575) | (406,513) |
| Net trade receivables | 6,458,244 | 6,969,444 |
| Prepayments | 1,563,470 | 2,727,333 |
| Allowances for doubtful prepayments (d) | (92,268) | (3,641) |
| Net provided prepayments | 1,471,202 | 2,723,692 |
| On taxes | 2,456,812 | 2,437,000 |
| Deferred taxes on VAT | 1,945,748 | 3,297,012 |
| Other | 531 | 2,019 |
| Total | 12,332,537 | 15,429,167 |

- a) The fair value of trade and other receivables classified as loans and receivables does not differ materially from the carrying amount.
- b) The Company's receivables are not ensured with collateral and other guarantees.
- c) Movement of allowance for doubtful trade receivables

| | 2017 AMD'000 | 2016 AMD'000 |
|----------------------------|-----------------|------------------|
| Opening balance | 406,513 | 5,089,620 |
| Increase of the allowances | - | 1,938 |
| Decrease of the allowances | (1,938) | (4,685,045) |
| Closing balance | 404,575 | 406,513 |

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d) Movement of allowances for doubtful prepayments

| | 2017 AMD'000 | 2016 AMD'000 |
|----------------------------|-----------------|-----------------|
| Opening balance | 3,641 | - |
| Increase of the allowances | 94,812 | 5,189 |
| Decrease of the allowances | (6,185) | (1,548) |
| Closing balance | 92,268 | 3,641 |

e) As at 31 December, 2017 trade receivables amount to AMD 6,458,244 thousand AMD was past due but not impaired (31 December 2016: 6,969,444 thousand drams). 1,097 thousand drams of those related to land lease. The aging analysis of past due non-impaired receivables is presented below:

| | 2017 AMD'000 | 2016 AMD'000 |
|----------------|------------------|------------------|
| Up to 3 months | 6,400,258 | 6,969,444 |
| 3 to 6 months | 56,889 | - |
| 6 to 12 months | 1,097 | - |
| | 6,458,244 | 6,969,444 |

f) As at 31 December, 2017 trade receivables amounting to 404,575 thousand drams (406,513 thousand drams as of December 31, 2016) are past due and fully impaired. At the reporting date, past due receivables refer to "Artsakh Energo" CJSC. The main factor that the management considers these past due amounts impaired is that these consumers are unlikely to be able to repay those debts over a certain period of time. In case of default within 30 days, the receivables are considered to be past due. At the end of the previous year, balances of past due debts have not been settled. The aging analysis of impaired receivables is presented below:

| | 2017 AMD'000 | 2016 AMD'000 |
|--------------------|-----------------|-----------------|
| 12 months and over | 404,575 | 406,513 |
| | 404,575 | 406,513 |

9. Cash and bank equivalents

| | 2017 AMD'000 | 2016 AMD'000 |
|----------------------------------|------------------|------------------|
| Bank balances (AMD) | 5,622,797 | 1,388,413 |
| Bank balances (foreign currency) | 450,002 | 72,657 |
| Cash on desk (AMD) | 116 | 325 |
| | 6,072,915 | 1,461,395 |

10. Share capital and reserves

10.1 Share capital

| | Ordinary shares 2017 | Ordinary shares 2016 AMD'000 |
|--|-------------------------|------------------------------------|
| Number of ordinary shares | 2,273,147 | 2,162,191 |
| Number of ordinary shares, issued and fully paid during the year | - | 120,262 |
| Shares bought back | - | (9,306) |
| | <u>2,273,147</u> | <u>2,273,147</u> |

As of 31.12.2017 the price of one share of the Company is set to 4,586 AMD according to the RoA Government Decree No. 1012-A dated 17.08.2017 on the reduction of the share capital. Prior to that date the price of one share of the Company was 5,300 drams.

10.2 Paid-in-capital

| | 2017 AMD'000 | 2016 AMD'000 |
|-----------------------------|------------------|------------------|
| <i>Opening balance</i> | <u>1,069,801</u> | - |
| Increase of paid-in-capital | 1,623,027 | 1,151,629 |
| Decrease of paid-in-capital | - | (81,828) |
| <i>Closing balance</i> | <u>2,692,828</u> | <u>1,069,801</u> |

In the reporting year paid-in-capital increase is due to reduction of shares nominal value (Note 10.1).

10.3 Capital reserve

In accordance with the law "On joint stock companies" and the Company's Charter the Company's distributable reserves are limited to the balance of retained earnings. According to legal requirements the Company is required to create a minimum non-distributable reserve from its retained earnings for an amount equal to 15% of its share capital for the purpose of covering future losses. According to the Company's charter the non-distributable reserve equals to 15% of the share capital.

As at December 31, 2017 the Company has not retained earnings and has not created a non-distributable reserve.

10.4 Revaluation reserve

The revaluation reserve arises on the revaluation of property, plant and equipment (4.d note).

11. Loans and borrowings

| | Current (a) | | Non-current (b) | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2017 AMD'000 | As at 31 December 2016 AMD'000 | As at 31 December 2017 AMD'000 | As at 31 December 2016 AMD'000 |
| Secured loan from the Ministry of Finance | - | - | 115,076,282 | 112,519,349 |
| Secured bank loans | 2,170,966 | 3,591,806 | - | - |
| Other borrowings | 4,593,490 | 4,593,490 | - | - |
| | <u>6,764,456</u> | <u>8,185,296</u> | <u>115,076,282</u> | <u>112,519,349</u> |

Bank loans bear a weighted average interest rate of 7.2 % annually (2016: 8% annually).

As described in note 1, the Ministry of Energy and Natural Resources of the Republic of Armenia and the Company commenced the reconstruction program by constructing a new state-of-the-art combined cycle power unit with natural gas firing. For this aim, after long negotiations and in the result of submission of solid reasoning the loan agreement on implementation of "Yerevan Combined Cycle Co-generation Power Plant Project" was signed on March 29, 2005 between the Government of the Republic of Armenia and Japan International Cooperation Agency (JICA). Based on the said agreement JICA provided an Official Development Assistance (ODA) loan to the Government of the Republic of Armenia with preferential terms: annual interest rate of 0.75% and 40 years of repayment period (including grace period of 10 years) by extending 24,409,000 thousand Japanese Yens. The agreement was ratified by the National Assembly on July 27, 2005. A sub loan agreement was concluded between the Ministry of Finance and the Company in March 2005 with the same terms.

Other borrowings include interest free borrowing from Vorotan HPPS at the amount of 4,593,490 thousand drams (December 31, 2016: drams 4,593,490 thousand), from which 4,164,300 thousand drams have been transferred to the Company based on the assignment agreement.

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

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

11.1 The movement of loans and borrowings

a) Current loans and borrowings

| Loans and borrowings | Opening balance AMD'000 | Movement of year AMD'000 | | | | Closing balance AMD'000 |
|------------------------------------|----------------------------|-----------------------------|------------------|--------------------------|--------------------|----------------------------|
| | | Providing | Interest accrued | Exchange rate difference | Redemption | |
| <i>Loans from commercial banks</i> | | | | | | |
| USA | 3,591,806 | 1,387,426 | 97,940 | 7,642 | (4,166,359) | 918,455 |
| EUR | - | 3,487,097 | 101,066 | 237,792 | (2,573,444) | 1,252,511 |
| <i>Borrowings</i> | | | | | | |
| Vorotan HPPS | 4,593,490 | - | - | - | - | 4,593,490 |
| Total | 8,185,296 | 4,874,523 | 199,006 | 245,434 | (6,739,803) | 6,764,456 |

b) Non-current loans and borrowings

| Loans | Opening balance AMD'000 | Movement of year AMD'000 | | | | Closing balance AMD'000 |
|--|----------------------------|-----------------------------|------------------|---------------------|--------------------|----------------------------|
| | | Providing* | Interest accrued | Exchange difference | Redemption | |
| Yerevan Combined Cycle Co-generation Power Plant Project (JICA, ARM-P2)† | 102,366,872 | - | 781,359 | 3,858,225 | (4,462,485) | 102,543,971 |
| Power Sector Financial Recovery Program (IBRD 8615-AM) | 8,213,588 | 839,011 | 209,137 | 10,041 | (203,592) | 9,068,185 |
| Power Transmission Improvement Project (IBRD 8495-AM) | 1,938,889 | 1,511,569 | 81,185 | 7,647 | (75,164) | 3,464,126 |
| Total | 112,519,349 | 2,350,580 | 1,071,681 | 3,875,913 | (4,741,241) | 115,076,282 |

(*) 1,511,569 thousand drams received loans include direct payments of 68,705 thousand drams to the contractors.

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12. Grants related to assets

| | 2017 AMD'000 | 2016 AMD'000 |
|--------------------|-----------------|-----------------|
| Opening balance | 33,295 | 38,174 |
| Income recognition | (1,006) | (1,006) |
| Other | - | (3,873) |
| Closing balance | <u>32,289</u> | <u>33,295</u> |

13. Grants related to income

| | 2017 AMD'000 | 2016 AMD'000 |
|--------------------|-----------------|-----------------|
| Opening balance | 417,871 | 435,315 |
| Income recognition | (6,043) | (18,215) |
| Other | - | 771 |
| Closing balance | <u>411,828</u> | <u>417,871</u> |

14. Trade and other payables

| | 2017 AMD'000 | 2016 AMD'000 |
|---|-------------------|-------------------|
| Trade payables | 28,707,388 | 20,265,948 |
| Other trade payables | 3,500,000 | 3,500,000 |
| Advances from costumers | 120,000 | 190,745 |
| Taxes and duties payable | 24,291 | 24,897 |
| Payables to employees | - | 11,560 |
| Provision for possible additional taxes | 5,178 | 6,476 |
| Other | 24,235 | 27,225 |
| | <u>32,381,092</u> | <u>24,026,851</u> |

The fair value of trade and other payables classified as financial liabilities at amortized cost does not significantly differ from the carrying amount.

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15. Revenue

| | 2017 AMD'000 | 2016 AMD'000 |
|---|-------------------|-------------------|
| Sale of electricity (a) | 43,704,198 | 40,062,789 |
| Provision of capacity (b) | 12,642,629 | 10,237,332 |
| Sale of natural gas (c) | 10,673,360 | 16,678,484 |
| Exchange transaction: Sale of electricity (d) | 13,677 | 1,975,214 |
| Exchange transaction: Sale of natural gas (e) | 3,864,004 | 1,077,817 |
| | 70,897,868 | 70,031,636 |

a) Revenue from sale of electricity and gas is recognized monthly based on the actual electricity transferred.

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

Electricity tariff (without VAT).

| Application date | AMD/KWh |
|------------------|---------|
| 01.08.2015 | 18.500 |
| 01.08.2016 | 17.767 |
| 01.02.2017 | 15.460 |

b) Revenue from provision of capacity is earned for the idle time of the plant and is recognized on monthly basis based on idle hours.

Provision of capacity tariff (without VAT).

| Application date | AMD/KWh-month |
|------------------|---------------|
| 01.08.2015 | 3,564.11 |
| 01.08.2016 | 4,707.83 |
| 01.02.2017 | 5,102.30 |

c) Revenue from the sale of natural gas is recognized monthly based on the actual transferred amount.

According to the contract, the Company purchases gas in exchange for electricity with agreed volume coefficient.

At the same time, the company supplies part of gas received at the same point to third party, and uses remaining volume for production of electricity. The third party supplies electricity to the Company at the same point based on agreed another coefficient, which in turn the Company wholly transfers to the Gas Supplier.

The Company's management has made substantiated judgments to determine whether the Company is a principal or an agent in regard to these circumstances in terms of IFRS requirements. Taking into account that the Company is basically responsible for contract performance, the settlement of the contractual issues and the quality and adequacy of the supplied goods, the Company management has considered that the Company is a principal party within the scope of the transactions, so the revenue has been recognized on a gross basis.

d) Exchange transaction: Sale of electricity

Under the agreement, the Company supplies electricity to a contracting party. Electricity supply is carried out for a certain period of time, which is conditioned by weather. The Contractor Company, in accordance with the agreed procedure and extent, reimbursed the Company with the corresponding volume of electricity.

e) Exchange transaction: Sale of natural gas

According to the contract, the Company provides some volume of natural gas to a contracting party at the gas distribution station owned by it. The Company provides only the residual amount of acquired and sold natural gas. The contracting party provides the corresponding amount of natural gas to the Company in accordance with the agreed terms at the gas distribution station.

16. Cost of sales

| | 2017 AMD'000 | 2016 AMD'000 |
|--|-------------------|-------------------|
| Cost of gas and other materials used in production | 30,459,540 | 28,291,594 |
| Cost of sold gas | 14,441,392 | 15,910,994 |
| Cost of sold electricity | 13,071,555 | 12,311,049 |
| Depreciation expenses | 3,279,910 | 3,136,283 |
| Power and gas transmission services | 2,088,001 | 2,930,140 |
| Employee remuneration | 355,531 | 444,080 |
| | 63,695,929 | 63,024,140 |

17. Administrative expenses

| | 2017 AMD'000 | 2016 AMD'000 |
|---------------------------------------|-----------------|-----------------|
| Employee remuneration | 268,336 | 195,007 |
| Audit and consulting | 109,539 | 82,801 |
| Non refundable taxes and duties | 75,741 | 116,665 |
| Depreciation and amortization expense | 59,405 | 106,030 |
| Office and utility expenses | 18,082 | 34,038 |
| Business trips and hospitality costs | 7,010 | 8,110 |
| Bank charges | 3,109 | 30,482 |
| Other | 22,754 | 28,127 |
| | 563,976 | 601,260 |

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18. Other expenses

| | 2017 AMD'000 | 2016 AMD'000 |
|------------------------------------|------------------|------------------|
| Depreciation | 740,653 | 1,344,877 |
| Fines and penalties | 140,572 | 118,841 |
| Costs of security | 130,355 | 130,355 |
| Disposal, write-off of inventories | 59,678 | |
| Currency conversion costs | 13,861 | 84,644 |
| Valuer's fee | 20,608 | |
| Provision for possible income tax | 1,442 | - |
| Other | 223,486 | 1,056,886 |
| | 1,330,655 | 2,735,603 |

19. Finance income and costs

| | 2017 AMD'000 | 2016 AMD'000 |
|--|------------------|--------------------|
| Interest income on deposits | 348,910 | - |
| Interest expenses on loan from the Ministry of Finance | (1,022,837) | (930,277) |
| Interest expenses on bank loans | (199,007) | (413,603) |
| | (872,934) | (1,343,880) |

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

| | 2017 AMD'000 | 2016 AMD'000 |
|--|--------------------|--------------------|
| Regarding to provided borrowings and receivables | 279,119 | 49,076 |
| Regarding to loans | (4,121,356) | (3,816,841) |
| Regarding to cash and cash equivalents | (13,404) | (84,644) |
| | (3,855,641) | (3,852,409) |

21. Income tax

A 20% income tax rate is applied on the Company's taxable profit in accordance with the Law "On Income tax" of the Republic of Armenia (2016 - 20%).

| | 2017 AMD'000 | 2016 AMD'000 |
|--------------------------|------------------|-----------------|
| Income tax reimbursement | (706,234) | 681,576 |
| | (706,234) | 681,576 |

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Reconciliation of effective tax rate is as follows:

| | 2017 | | 2016 | |
|---|--------------------|----------|--------------------|-------------|
| | AMD'000 | % | AMD'000 | % |
| Profit before taxation | (7,829,555) | | (1,066,280) | |
| Income tax on defined rate | (1,565,911) | 20 | (213,256) | 20 |
| Tax consequence of exchange (gain)/loss | 771,128 | (10) | 770,482 | (72) |
| Tax consequence of financial asset's impairment | 1,691,408 | (22) | - | - |
| Tax consequence of PPE's impairment | 17,321 | (0.2) | - | - |
| Brought forward of previous years' tax loss (Non-taxable)/non-deductible items, net | (1,525,100) | 19 | - | - |
| Income tax expense/(reimbursement) and effective tax rate | (706,234) | 9 | 681,576 | (64) |

22. Related party transactions

The Government of the Republic of Armenia owns 100 % of the Company's shares, hence all state owned enterprises are considered related to the Company. The Company's related parties include also key management.

22.1 Controll

The company is controlled by the Government of the Republic of Armenia represented by the Ministry of Energy and Natural Resources.

22.2 Transactions with related parties

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

| | Year ended at 31, December, 2017 AMD'000 | Year ended at 31, December, 2016 AMD'000 |
|---|---|---|
| Shareholders | | |
| Accrual of interest expense | 1,071,681 | 955,808 |
| Redemption of interest accrued | 1,058,762 | 4,833,518 |
| Redemption of principal amount of borrowings | 3,682,479 | - |
| Other organizations under common control | | |
| Provision of services | 1,909 | 1,472 |
| Repayment of provided borrowings | - | 1,702 |
| Acquisition of services | 3,269,233 | 1,961,069 |
| Repayment of borrowings received | - | 150,273 |
| Reimbursement of income tax | 26,228 | - |

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| | As of 31 December, 2017 AMD'000 | As of 31 December, 2016 AMD'000 |
|---|---------------------------------------|---------------------------------------|
| Loans and borrowings from Ministry of Finance of RA | 115,076,282 | 112,519,349 |
| Trade and other receivables | - | 26,753 |
| Non-current financial assets | 24,288 | 11,617,775 |
| Trade and other payables | 5,289,643 | 5,144,330 |
| Other borrowings | 4,593,490 | 4,593,490 |

22.3 Compensations to key management

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

| | 2017 AMD'000 | 2016 AMD'000 |
|--|-----------------|-----------------|
| Salaries and other short-term reimbursements | 16,871 | 6,825 |
| | <u>16,871</u> | <u>6,825</u> |

23. Financial Instruments risks

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

23.1 Market risk

23.1.1. Price risk

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

23.2 Credit risk

Credit risk is the risk the Company could incur financial losses resulted from the third parties failure to discharge their obligations toward the Company. Credit risk arises from trade and other receivables, borrowings provided requirements for financial institutions. The impacted of credit risk is presented at following carrying amount of financial assets.

| | As of 31 December 2017 AMD'000 | As of 31 December 2016 AMD'000 |
|------------------------------|--------------------------------------|--------------------------------------|
| Non-current financial assets | 24,288 | 8,386,514 |
| Trade and other receivables | 6,458,244 | 6,965,800 |
| Bank balances | 6,072,915 | 1,461,395 |
| | <u>12,555,447</u> | <u>16,813,709</u> |

Trade receivables of the Company are mainly the receivables amounts from "Electric Networks of Armenia" CJSC. The credit risk is acceptable for these trade receivables. As at 31 December 2017, a provision has been created for old-aging debts in the amount of 410,154 thousand drams (As at 31 December 2016: 5,089,620 thousand drams).

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The information on the aging and uncollectible risk of trade and other receivables are presented in note 8.

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

23.3 Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The transactions of the Company are mainly implemented in Armenian drams. Company's exposure to the currency risk relates to the commercial transactions, expressed initially in a Japanese Yen, USD and EURO.

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As of 31 December 2017 the Company's foreign currency assets/(liabilities) are as follows:

| Articles in foreign currency | USD | EUR | JPY | Rub | GBP | SEK | Total |
|------------------------------|--------------------|--------------------|----------------------|-----------|------------|---------------|----------------------|
| Financial assets | | | | | | | |
| Cash and cash equivalents | 449,845 | - | - | 47 | 110 | - | 450,002 |
| Trade and other receivables | 3,039,219 | 483,015 | 1,604 | - | - | 16,922 | 3,540,760 |
| | 3,489,064 | 483,015 | 1,604 | 47 | 110 | 16,922 | 3,990,762 |
| Financial liabilities | | | | | | | |
| Loans and borrowings | 12,682,781 | 1,252,511 | 102,543,971 | - | - | - | 116,479,263 |
| Trade payables | 560,119 | 8,276,971 | - | - | - | - | 8,837,090 |
| | 13,242,900 | 9,529,482 | 102,543,971 | - | - | - | 125,316,353 |
| Net result | (9,753,836) | (9,046,467) | (102,542,367) | 47 | 110 | 16,922 | (121,325,591) |

As of 31 December 2016 the Company's foreign currency assets/(liabilities) are as follows:

| Articles in foreign currency | USD | EUR | JPY | Rub | GBP | SEK | Total |
|------------------------------|---------------------|----------------|----------------------|------------|-----------|---------------|----------------------|
| Financial assets | | | | | | | |
| Cash and cash equivalents | 72,462 | 62 | - | 44 | 89 | - | 72,657 |
| Trade and other receivables | 1,183,740 | 880,489 | 19,349 | 690 | - | 74,327 | 2,158,595 |
| | 1,256,202 | 880,551 | 19,349 | 734 | 89 | 74,327 | 2,231,252 |
| Financial liabilities | | | | | | | |
| Loans and borrowings | 13,362,052 | - | 102,543,971 | - | - | - | 115,728,924 |
| Trade payables | 477,701 | - | - | - | - | - | 477,701 |
| | 13,839,753 | - | 102,543,971 | - | - | - | 116,206,625 |
| Net result | (12,583,551) | 880,551 | (102,542,367) | 734 | 89 | 74,327 | (113,975,373) |

The following table presents the sensitivity of the Company financial results to the increase/decrease of dram against the mentioned currencies by 5% (2016: 5%). The 5% is a possible change based on the management's assessment. The sensitivity analysis includes only foreign currency monetary items and at the end of the period adjusts their exchange rate by 5%.

The 5% of inflation of the AMD against the mentioned currencies will have the following impact:

| | USD | EUR | YEN | RUB | GBP | SEK | Total |
|-------------|-----------|-----------|-------------|---------|---------|---------|-------------|
| | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 |
| Gain/(loss) | (487,692) | (452,323) | (5,127,118) | 2 | 6 | 846 | (6,066,279) |

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

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

| | 31.12.2017 | 31.12.2016 | AMD Appreciation/ (inflation) |
|-------------|------------|------------|-------------------------------------|
| | AMD | AMD | |
| USD rate is | 484.1 | 483.94 | (0.03 %) |
| EUR rate is | 580.1 | 512.2 | (11.7%) |
| Yen rate is | 42.99 | 41.41 | (3.7%) |

23.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The repayments of borrowings and loan obligations in cash flow obligations are based on loan schedule.

The Company finance department monitors liquidity of the Company to ensure enough cash balances for operational activity following the approved annual cash budget of the Company.

The Company does not have derivative financial liabilities. The following table analysis the Company non-derivative financial liabilities into relevant maturity groupings based on the remaining periods at the reporting date to the contractual maturity date.

| Non-derivative financial liabilities | Maturity Periods | | | |
|--------------------------------------|-------------------|------------------|-----------|--------------------|
| | Up to 6 months | 6-12 months | 1-5 years | 5 and over |
| On procurements | 28,707,388 | - | - | - |
| Borrowings and loans | 4,593,490 | 2,170,966 | - | 115,076,282 |
| Total | 33,300,878 | 2,170,966 | - | 115,076,282 |

24. Contingencies

24.1 Insurance

The Company does not have coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to Company's operations, except for third party liabilities arising from car accidents.

24.2 Contingent liabilities and provisions

As at 31.12.2017 and date of signing these financial statements there were no litigations initiated against the Company, but the Company started judicial process against “Vanadzor Qimprom” CJSC and “Nairit plant” CJSC. The above-mentioned organizations are bankrupt.

24.3 Environmental matters

Management is of the opinion that the Company has met the Government’s requirements concerning environmental matters and, therefore, believes that the Company does not have any current material environmental liabilities. However, environmental legislation in Armenia is in process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

25. Capital management

The Company manages its capital to ensure that it will be able to continue as going concerns. The capital structure of the Company consists of borrowings (current and non-current liabilities) and equity comprising issued capital, reserves and retained earnings.

The Company’s as capital-managed amounts are summarized below:

| In thousand drams | As of 31 December 2017 | As of 31 December 2016 |
|----------------------------------|---------------------------|---------------------------|
| Borrowings | 121,840,738 | 120,704,645 |
| Less: cash and cash equivalents | (6,072,915) | (1,461,395) |
| Net debt | 115,767,823 | 119,243,250 |
| Total equity | 1,854,076 | 10,425,883 |
| Ratio of Capital and Debt | 2% | 9% |

26. Fair Value measurement disclosures

The following table sets out the assets and liabilities for which fair values are disclosed in the notes:

| Item | Fair value AMD’000 | Valuation technique | Fair value hierarchy level | Significant unobservable inputs |
|-------------------|-----------------------|--|-------------------------------|---------------------------------------|
| Borrowings | 121,840,738 | Current The carrying amount of borrowings approximates its fair values. | Level 3 | N/A |
| Trade receivables | 6,458,244 | Current The carrying amount of short term (less than 12 months) trade receivables approximates its fair values. | Level 3 | N/A |
| Trade payables | 28,707,388 | Current The carrying amount of short term (less than 12 months) trade payables approximates its fair values. | Level 3 | N/A |