

Financial Statements and Independent Auditor's Report Yerevan Thermal Power Centre CJSC

31 December 2020



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Independent auditor's report

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To the shareholder of Yerevan Thermal Power Centre CJSC

Opinion

We have audited the financial statements of Yerevan Thermal Power Centre CJSC (the "Company"), which comprise the statement of financial position as of 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Matter

The Company's financial statements for the year ended 31 December 2019 were audited by other auditor – BDO Armenia CJSC. The latter expressed qualified opinion on those financial statements on 30 April 2020.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Statement of financial position

In thousand drams

	Note	As of 31 December 2020	As of 31 December 2019 (restated)	As of 1 January 2019 (restated)
Assets				
<i>Non-current assets</i>				
Property, plant and equipment	4	117,343,926	122,265,277	129,000,249
Intangible assets		6,019	7,409	9,865
Deferred income tax assets	5	1,031,167	817,321	1,654,959
		<u>118,381,112</u>	<u>123,090,007</u>	<u>130,665,073</u>
<i>Current assets</i>				
Inventories	6	6,920,416	6,300,237	7,064,124
Trade and other receivables	7	7,341,894	6,888,031	7,757,606
Cash and bank balances	8	11,234,752	11,035,643	3,914,547
		<u>25,497,062</u>	<u>24,223,911</u>	<u>18,736,277</u>
Total assets		<u><u>143,878,174</u></u>	<u><u>147,313,918</u></u>	<u><u>149,401,350</u></u>
Equity and liabilities				
<i>Capital and reserves</i>				
Share capital	9	1,852,615	1,852,615	1,852,615
Share premium		11,264,865	11,264,865	11,264,865
Revaluation reserve		5,068,978	6,043,162	6,794,520
Accumulated loss		(28,462,734)	(17,465,316)	(19,724,789)
		<u>(10,276,276)</u>	<u>1,695,326</u>	<u>187,211</u>
<i>Non-current liabilities</i>				
Long-term loans and borrowings	10	124,417,713	111,709,671	115,060,876
		<u>124,417,713</u>	<u>111,709,671</u>	<u>115,060,876</u>
<i>Current liabilities</i>				
Short-term portion of loans and borrowings	10	9,242,128	9,700,867	9,900,731
Grants related to income		53,779	49,051	-
Trade and other payables	11	19,724,044	23,917,545	24,252,532
Current income tax liabilities		716,786	241,458	-
		<u>29,736,737</u>	<u>33,908,921</u>	<u>34,153,263</u>
Total equity and liabilities		<u><u>143,878,174</u></u>	<u><u>147,313,918</u></u>	<u><u>149,401,350</u></u>

The financial statements were approved on 30 April 2021 by:



Arsen Grigoryan
General Director

Garry Akhoyan
Head of Accounting Service

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 38.

Statement of profit or loss and other comprehensive income

In thousand drams

	Note	Year ended 31 December 2020	Year ended 31 December 2019 (restated)
Revenue	12	77,309,739	74,975,272
Cost of sales	13	(71,623,890)	(68,775,802)
Gross profit		5,685,849	6,199,470
Other income		43,788	77,255
Administrative expenses	14	(649,642)	(755,789)
Other expenses	15	(701,190)	(2,369,638)
Impairment of assets		-	(121,907)
Results from operating activities		4,378,805	3,029,391
Finance income	16	1,419,725	1,035,074
Finance costs	16	(1,171,405)	(1,456,817)
Loss from exchange differences	17	(15,955,787)	(20,436)
Profit/(loss) before income tax		(11,328,662)	2,587,212
Income tax expense	18	(642,940)	(1,248,958)
Profit/(loss) for the year		(11,971,602)	1,338,254
<i>Other comprehensive income</i>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Effect of change in income tax rate		-	169,861
Total comprehensive income for the year		(11,971,602)	1,508,115

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 38.

Statement of changes in equity

In thousand drams	Share capital	Share premium	Revaluation reserve	Accumulated loss	Total
as of 1 January 2019	1,852,615	11,264,865	8,126,425	(19,348,969)	1,894,936
Correction of prior period errors			(1,331,905)	(375,820)	(1,707,725)
Adjusted as of 1 January 2019	1,852,615	11,264,865	6,794,520	(19,724,789)	187,211
Profit for the year	-	-	-	1,338,254	1,338,254
Other comprehensive income for the year			169,861	-	169,861
Total comprehensive income for the year	-	-	169,861	1,338,254	1,508,115
Transfer of revaluation reserve to accumulated profit	-	-	(921,219)	921,219	-
as of 31 December 2019	1,852,615	11,264,865	6,043,162	(17,465,316)	1,695,326
Loss for the year	-	-	-	(11,971,602)	(11,971,602)
Total comprehensive income for the year	-	-	-	(11,971,602)	(11,971,602)
Transfer of revaluation reserve to accumulated profit	-	-	(974,184)	974,184	-
as of 31 December 2020	1,852,615	11,264,865	5,068,978	(28,462,734)	(10,276,276)

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 38.

Statement of cash flows

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019 (restated)
Cash flows from operating activities		
Cash received from customers	33,191,947	37,427,520
Cash paid to suppliers	(26,239,632)	(22,183,326)
Cash paid to employees	(517,016)	(533,546)
Taxes and duties paid	(1,635,155)	(2,505,153)
Other receipts	19,191	9,405
Income tax paid	(386,874)	-
<i>Cash generated from operations</i>	<u>4,432,461</u>	<u>12,214,900</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(778,537)	(899,428)
Proceeds from disposal of property, plant and equipment	-	5,150
Interest income received	1,396,999	958,015
<i>Net cash from investing activities</i>	<u>618,462</u>	<u>63,737</u>
Cash flows from financing activities		
Proceeds from loans and borrowings	331,857	272,329
Repayment of loans and borrowings	(3,965,075)	(3,947,057)
Interest paid	(1,220,708)	(1,476,561)
<i>Net cash used in financing activities</i>	<u>(4,853,926)</u>	<u>(5,151,289)</u>
Net increase in cash and bank balances	196,997	7,127,348
Foreign exchange effect on cash	2,112	(6,252)
Cash and bank balances at the beginning of the year	11,035,643	3,914,547
Cash and bank balances at the end of the year	<u>11,234,752</u>	<u>11,035,643</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 38.

Notes to the financial statements

1 Nature of operations and general information

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 centres 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 29 March 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. The agreement was ratified by the National Assembly of the RA on 27 July 2005.

Construction of the new plant started in 2006 and was completed in 2010, the new plant has been put in use in April 2010.

The average number of employees of the Company during 2020 was 195 employees (2019: 212 employees).

The Company is registered at 0053, 3 Arin Berd Str., Impasse 3, Yerevan, Republic of Armenia:

Business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The coronavirus has already had a significant impact on the global economy and major financial markets.

Continuous measures were introduced by the Government and the Central Bank of the Republic of Armenia to mitigate the impact of the coronavirus on the economy. These measures include, among others, subsidized lending to affected industries and individuals and payment holidays.

The Company's management considers its current liquidity position to be sufficient for the sustainable functioning. The Company monitors its liquidity position on regular basis and intends to use appropriate liquidity position instruments, if necessary.

The situation in the Republic of Armenia has intensified as a result of the war unleashed by the Republic of Azerbaijan. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

These events may have a further significant impact on the Company's future operations and financial stability, the full consequences of which are currently difficult to predict. The future economic and political situation and its impact on the Company's operations may differ from the management's current expectations.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Company operates on a going concern basis.

2.2 Basis of measurement

The financial statements have been prepared on an accruals basis and under the historical cost convention with the exception of certain financial instruments that are stated at present discounted value of future cash flows and certain property, plant and equipment that are stated at their revalued amounts.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Company's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in Armenian drams (unless otherwise stated), since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 19 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2020

New standards and amendments described below and applied for the first time in 2020 did not have a material impact on the annual financial statements of the Company:

- *Conceptual Framework for Financial Reporting*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7)*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning on or after the effective date of the pronouncement.

Management does not anticipate a material impact on the Company's financial statements from these Standards and Amendments, they are presented below:

- *Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)*
- *Proceeds before intended use (Amendments to IAS 16)*
- *Annual improvements to IFRS Standards 2018-2020 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*
- *Classification of liabilities as current or non-current (Amendments to IAS 1)*

2.6 Restatement of financial statements

The Company applies changes in accounting policies and correction of prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: restating the comparative amounts for the prior periods presented in which the error occurred; or 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. The financial statements including the comparative information for prior periods are presented as if the correction had been made in the period in which such a necessity arose. Therefore, the amount of the correction that relates to each period presented is included in the financial statements of that period.

3 Significant accounting policies

3.1 Foreign currencies

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 522.59 drams for 1 US dollar, 641.11 drams for 1 euro and 5.06 drams for 1 Japanese yen as of 31 December 2020 (31 December 2019: 479.70 drams for 1 US dollar, 537.26 drams for 1 euro and 4.4 drams for 1 Japanese yen). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property, plant and equipment

The Company's lands, buildings, constructions and equipment 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. 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.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

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.

Depreciation is charged to profit or loss or is added to the cost of other asset 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
Transmission devices	- 5-40 years
Machinery and equipment	- 5-40 years
Vehicles	- 5 years
Fixture and fittings	- 5-40 years
Other	- 2-10 years.

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

3.3 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.

Amortization is charged to profit or loss or is added to the cost of other asset on a straight-line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years for software.

3.4 Impairment of property, plant and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

3.5 Leased assets

The Company as a lessor

As a lessor the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

3.6 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.7 Financial instruments

Recognition 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 substantially all risks and rewards are transferred.

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

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost

- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the Company's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

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. A summary of the Company's financial assets by category is presented in note 20.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the “expected credit loss (ECL) model”. Instruments within the scope of IFRS 9 requirements included trade receivables, contract assets recognized and measured under IFRS 15 and cash and cash equivalents.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month expected credit losses” are recognized for the first category while “lifetime expected credit losses” are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to note 21 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

The Company's financial liabilities include loans and borrowings, trade and other payables. A summary of the Company's financial liabilities by category is presented in note 20.2.

Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. The difference between fair value and nominal value is recognized in profit or loss, except when the borrowing was received from the owners. In this instance the difference between fair value and nominal value is recognized in equity as additional capital. 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.

Trade and other payables

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

3.8 Cash and cash equivalents

Cash and bank balances comprise cash on hand, bank accounts and cash in transit.

For the purpose of the statement of cash flows, cash equivalents are on-demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

3.9 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.

3.10 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.

3.11 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.12 Income tax

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.13 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

- (a) wages, salaries and bonuses;
- (b) paid annual leaves and paid disability leaves;
- (c) social security contributions and other social payments; [does not relate to the mandatory payments made to the pension fund on behalf of the employees]

When employees render services to the Company during the accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Company shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.
- (b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

- (a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Company has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the Company has no realistic alternative but to make the payments.

3.14 Revenue

Contract revenue

Contract revenue arises from sale of electricity and natural gas and provision of capacity, as well as from exchange of electricity and gas.

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers.

The Company recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as advances from customers in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Revenue from sale of electricity and gas

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

Revenue from provision of capacity

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

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.

Interest income

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.

Rental income

Rental income is recognized on a straight-line basis over the term of the relevant lease.

4 Property, plant and equipment

In thousand drams

	Land	Buildings and constructions	Transmission devices	Machinery and equipment	Vehicles	Construction in progress	Fixtures and fittings	Total
<i>Cost</i>								
as of 1 January 2019	5,388,333	24,598,595	18,348,614	143,980,660	314,888	1,680,339	1,703,367	196,014,796
Additions	-	-	8,043	118,542	105	-	7,046	133,736
Disposals	-	-	(25,223)	(483)	(2,720)	-	-	(28,426)
Internal movement	-	(481)	468,304	481	-	-	-	468,304
as of 31 December 2019	5,388,333	24,598,114	18,799,738	144,099,200	312,273	1,680,339	1,710,413	196,588,410
Additions	-	3,387	52,250	847,791	-	-	13,199	916,627
Disposals	-	-	(35,210)	(176,683)	-	-	(288)	(212,181)
Transfer to inventories	-	-	(322,295)	(1,160)	-	-	-	(323,455)
Internal movement	-	792	-	264	-	-	(1,056)	-
as of 31 December 2020	5,388,333	24,602,293	18,494,483	144,769,412	312,273	1,680,339	1,722,268	196,969,401
<i>Accumulated depreciation and impairment</i>								
as of 1 January 2019	2,327,435	3,573,857	7,044,210	51,720,735	136,535	1,558,463	653,312	67,014,547
Charge for the year	-	2,465,160	496,327	4,132,230	20,816	-	73,439	7,187,972
Eliminated on disposal	-	(36)	(828)	(114)	(284)	-	-	(1,262)
Impairment	-	-	-	-	-	121,876	-	121,876
as of 31 December 2019	2,327,435	6,038,981	7,539,709	55,852,851	157,067	1,680,339	726,751	74,323,133
Charge for the year	-	664,636	500,783	4,088,000	20,672	-	52,838	5,326,929
Eliminated on disposal	-	-	(13,991)	(10,437)	-	-	(158)	(24,586)
Internal movement	-	528	-	22	-	-	(550)	-
as of 31 December 2020	2,327,435	6,704,144	8,026,501	59,930,436	177,739	1,680,339	778,881	79,625,475
<i>Carrying amount</i>								
as of 31 December 2019	3,060,898	18,559,133	11,260,029	88,246,349	155,206	-	983,662	122,265,277
as of 31 December 2020	3,060,898	17,898,149	10,467,982	84,838,976	134,534	-	943,387	117,343,926

Included in the property, plant and equipment is the old power plant at the carrying amount of drams 3,866,792 thousand as of 31 December 2020 (31 December 2019 drams 4,316,223 thousand). Exploitation of this power plant has been suspended since exploitation of the new plant, and the latter has been held as a reserve capacity.

Within the scope of the RA Prime Minister decree N 612-U dated 25 May 2020, the Company undertook the process of disposal of property not exploited and useless of the old power plant.

As of 31 December 2020 the carrying amount of the new power plant is drams 110,416,331 thousand (as of 31 December 2019: drams 114,854,391 thousand).

The additions of 2020 include upgrade of the compressor. The upgrade was designed to increase the compressor productivity, by increasing the capacity of the power unit, maintaining the power unit's efficiency coefficient and interrepair terms.

Property, plant and equipment of the Company at the carrying amount of drams 19,663,410 thousand have been pledged as a security for loans and borrowings as of 31 December 2020 (31 December 2019: drams 20,243,143 thousand).

As of 31 December 2020 historical cost of fully depreciated property, plant and equipment is drams 4,865,808 thousand (31 December 2019: drams 4,792,895 thousand).

The Company's property, plant and equipment are measured at revalued amount, which were last revalued as of 31 December 2017 by independent valuer – Artin Enterprise LLC. Valuations were made on the basis of recent market transactions on arm length terms. The revaluation surplus net of applicable deferred income taxes was credited to revaluation reserve in shareholder's equity.

Methods of valuation of the fair value are presented in note 22.

If property, plant and equipment were stated at historical cost, their carrying amounts as of the reporting date would be drams 112,274,948 thousand (31 December 2019: drams 116,222,116 thousand).

Depreciation expense has been charged as follows:

In thousand drams

	As of 31 December 2020	As of 31 December 2019
Cost of sale	4,682,547	4,825,096
Administrative expenses	206,901	258,134
Other expenses	437,481	2,109,742
	<u>5,326,929</u>	<u>7,187,972</u>

5 Deferred income tax assets

The movement of deferred income taxes is disclosed below:

In thousand drams

	2020	2019 (restated)
Balance at the beginning of year	817,321	1,654,959
(Charged)/credited to profit or loss	213,846	(1,007,500)
Credited in other comprehensive income	-	169,862
Balance at the end of year	<u>1,031,167</u>	<u>817,321</u>

Deferred income taxes for the Year ended 31 December 2020 can be summarized as follows:

In thousand drams	1 January 2020	Recognized in profit or loss	31 December 2020
<i>Deferred income tax assets</i>			
Financial assets	2,057,580	-	2,057,580
Trade and other receivables	79,237	-	79,237
Trade and other payables	7,053	-	7,053
	<u>2,143,870</u>	<u>-</u>	<u>2,143,870</u>
<i>Deferred income tax liabilities</i>			
Property, plant and equipment	1,326,549	(213,846)	1,112,703
	<u>1,326,549</u>	<u>(213,846)</u>	<u>1,112,703</u>
Net position – deferred income tax assets	<u>817,321</u>	<u>213,846</u>	<u>1,031,167</u>

Deferred income taxes for the year ended 31 December 2019 can be summarized as follows:

In thousand drams	1 January 2019	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2019 (restated)
<i>Deferred income tax assets</i>				
Financial assets	2,211,138	(153,558)	-	2,057,580
Trade and other receivables	132,312	(53,075)	-	79,237
Tax losses	1,001,403	(1,001,403)	-	-
Trade and other payables	8,736	(1,683)	-	7,053
	<u>3,353,589</u>	<u>(1,209,719)</u>	<u>-</u>	<u>2,143,870</u>
<i>Deferred income tax liabilities</i>				
Property, plant and equipment	1,698,630	(202,219)	(169,862)	1,326,549
	<u>1,698,630</u>	<u>(202,219)</u>	<u>(169,862)</u>	<u>1,326,549</u>
Net position – deferred income tax assets/(liabilities)	<u>1,654,959</u>	<u>(1,007,500)</u>	<u>169,862</u>	<u>817,321</u>

The amounts recognized in other comprehensive income relate to revaluation of property, plant and equipment.

6 Inventories

In thousand drams	As of 31 December 2020	As of 31 December 2019
Spare parts	5,714,655	5,002,716
Materials	1,031,244	1,117,507
Construction materials	82,790	93,263
Other	91,727	86,751
	<u>6,920,416</u>	<u>6,300,237</u>

7 Trade and other receivables

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Financial assets</i>		
Trade receivables	6,139,808	5,622,285
Allowances for credit losses	(569,922)	(569,922)
	<u>5,569,886</u>	<u>5,052,363</u>
<i>Non-financial assets</i>		
Advances and prepayments	2,557	31,776
Prepaid taxes	1,769,451	1,803,892
	<u>7,341,894</u>	<u>6,888,031</u>

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The average credit period on sales is 26 days (2019: 24 days). No interest is charged on the trade receivables.

Management believes that the receivables from the State budget are fully recoverable.

As of the reporting date allowance for credit losses for trade receivables amounting to drams 404,575 thousand (as of 31 December 2019: drams 404,575 thousand) refers to Artsakhenergo CJSC. Impaired receivables mature in more than one year.

The closing balance of the trade receivables loss allowance as of 31 December 2020 reconciles with the trade receivables loss allowance opening balance as follows:

In thousand drams	2020	2019
Loss allowance as of 1 January	569,922	567,797
Decrease in allowance during the year	-	(2,125)
Loss allowance as of 31 December	<u>569,922</u>	<u>569,922</u>

Note 21 (b) includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses.

Refer to note 21 (a) for the currencies in which the trade and other receivables are denominated.

8 Cash and bank balances

In thousand drams	As of 31 December 2020	As of 31 December 2019
Cash in hand	208	2,954
Bank accounts	134,544	132,689
Term deposits	11,100,000	10,900,000
	<u>11,234,752</u>	<u>11,035,643</u>

Term deposits represent bank deposits invested in Armbusinessbank CJSC with annual interest rate of 13.4%, which is repayable on 7 June 2021.

Refer to note 21 for the currencies in which the cash and bank balances are denominated.

9 Capital and reserves

9.1 Share capital

Number of shares unless otherwise stated	Ordinary shares	Ordinary shares
	2020	2019
Authorized shares		
Number of ordinary shares of drams 815 each	2,273,147	2,273,147
Number of ordinary shares of drams 815 each	<u>2,273,147</u>	<u>2,273,147</u>

The Company has one class of ordinary shares, which carry no right to fixed income.

9.2 Reserve capital

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 as recorded in the Company’s statutory financial statements.

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.

As of reporting period the Company does not have any retained earnings, therefore did not create a reserve capital.

9.3 Share premium

Share premium was arisen as a result of price reductions per share in previous years. In the reporting and the previous years the number of shares of the Company remained unchanged - 2,273,147. The last change in the share price was on 09.08.2018, the price per share was set at drams 815, according to the RA Government Decision N 884-U on the reduction of the Company's share capital.

9.4 Revaluation reserve

The revaluation reserve arises on the revaluation of property, plant and equipment. Revaluation reserve is transferred to 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 amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is also transferred to accumulated profit. Revaluation reserve is presented net of related income tax.

10 Loans and borrowings

In thousand drams	Current		Non-current	
	As of 31 December 2020	As of 31 December 2019	As of 31 December 2020	As of 31 December 2019
Secured bank borrowings from the RA Ministry of Finance	4,648,638	5,107,377	124,417,713	111,709,671
Other borrowings	4,593,490	4,593,490	-	-
	<u>9,242,128</u>	<u>9,700,867</u>	<u>124,417,713</u>	<u>111,709,671</u>

Details on loans and borrowings are as follows:

Lender	Currency	Effective interest rate	Maturity	As of December 31, 2020	As of December 31, 2019
Japan bank for international cooperation	Japanese yen	0.75%	3/30/2045	107,596,840	97,231,565
International bank for reconstruction and development	US dollars	1.98%	11/15/2040	10,741,310	9,550,675
International bank for reconstruction and development	US dollars	1.83%	11/15/2039	8,721,927	8,024,192
Co-financing for International bank for reconstruction and development	Armenian drams	1.83%	11/15/2039	2,006,274	2,010,616
Vorotan HPP	Armenian drams	0%	12/31/2020	4,593,490	4,593,490
				<u>133,659,841</u>	<u>121,410,538</u>

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.

Loans from the Ministry of the RA include loan received in the scope of financial recovery programs in the electricity sector. The funding was implemented within the scope of the agreement signed between the RA and International bank for reconstruction and development (IBRD).

Other borrowings include interest free borrowing from Vorotan HPP at the amount of drams 4,593,490 thousand (31 December 2019: drams 4,593,490 thousand), which have been transferred to the Company based on the assignment agreement.

The fair values of loans and borrowings equal their carrying amount, as the impact of discounting is not significant.

Loans from the Ministry of the RA are secured by issued ordinary debt securities and property, plant and equipment (refer to note 4).

Refer to note 21 for more information about the Company’s foreign currency risks.

11 Trade and other payables

In thousand drams	As of 31 December 2020	As of 31 December 2019
Trade payables	16,128,400	20,310,492
Taxes and duties payable	61,250	51,043
Payables to employees	34,394	56,010
Other	3,500,000	3,500,000
	<u>19,724,044</u>	<u>23,917,545</u>

The average credit period on purchase of certain goods is 82 days (2019: 108 days). No interest is charged on the trade payables. The Company has financial risk management policies to ensure that all payables are paid within the credit timeframe.

Refer to note 21 for more information about the Company’s exposure to foreign currency risk.

Other payables include a liability to Vorotan HPP CJSC arising from a contract between Haygazard CJSC and Vorotan HPP CJSC to transfer the right to claim to Yervan TPC CJSC.

12 Revenue

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Sale of electricity	48,631,070	49,463,759
Sale of natural gas	17,510,491	13,371,725
Provision of capacity	11,168,178	12,139,788
	<u>77,309,739</u>	<u>74,975,272</u>

The Company's revenue by pattern of recognition is as follows:

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Revenue recognized at a point in time	66,141,561	62,835,484
Revenue recognized over time	11,168,178	12,139,788
	<u>77,309,739</u>	<u>74,975,272</u>

13 Cost of sales

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Cost of gas and other materials used in production	27,578,045	29,602,557
Cost of acquired electricity	18,441,568	17,875,740
Cost of sold gas	17,495,419	13,376,050
Depreciation and maintenance costs	4,771,532	4,825,096
Cost of transmission of electricity and gas	2,915,276	2,656,642
Employee benefits	422,050	439,717
	<u>71,623,890</u>	<u>68,775,802</u>

14 Administrative expenses

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Employee remuneration	239,096	273,399
Depreciation, amortization and maintenance costs	211,271	258,134
Non-refundable taxes and duties	115,293	120,453
Audit and consulting	41,918	44,829
Office and utility expenses	16,546	37,644
Other	25,518	26,330
	<u>649,642</u>	<u>755,789</u>

15 Other expenses

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Depreciation	437,481	2,109,742
Security expenses	130,355	130,355
Fines and penalties	5,677	12,761
Other	127,677	116,780
	<u>701,190</u>	<u>2,369,638</u>

16 Finance income and costs

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Interest income on deposits	1,419,725	1,035,074
Total finance income	1,419,725	1,035,074
Interest expense on loan from the RA Ministry of finance	1,171,405	1,456,817
Total finance costs	1,171,405	1,456,817
Net finance income/(costs)	248,320	(421,743)

17 Loss from exchange differences

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
<i>Financial assets at amortized cost</i>		
Cash and cash equivalents	2,112	(6,252)
Trade and other receivables	-	9,313
	2,112	3,061
<i>Financial liabilities measured at amortized cost</i>		
Loans and borrowings	(15,931,825)	(143,404)
Trade and other payables	(26,074)	119,907
	(15,957,899)	(23,497)
	(15,955,787)	(20,436)

18 Income tax expense

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Current tax	856,786	241,458
Deferred tax (refer to note 5)	(213,846)	1,007,500
	642,940	1,248,958

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2020	Effective tax rate (%)	Year ended 31 December 2019	Effective tax rate (%)
Profit/(loss) before taxation (under IFRSs)	(11,328,662)		2,587,212	
Tax calculated at a tax rate of 18% (2019: 20%)	(2,039,159)	18	517,442	20
(Non-taxable)/non-deductible items, net	2,682,099	(24)	1,472,241	57
Use of accumulated tax losses	-	-	(1,001,402)	(39)
Effect of change in the tax rate	-	-	260,677	10
Income tax expense	642,940	(6)	1,248,958	48

19 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

19.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment

Management has estimated useful lives of the property, plant and equipment. 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 estimations, financial statements may be materially different.

Inventories

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Allowance for expected credit losses for trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for customers.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. The impact of forecast economic conditions in the determination of ECL was not significant. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in note 21.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in tax environment.

20 Financial instruments

20.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.7.

20.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

Financial assets

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Amortized cost</i>		
Trade and other receivables	3,612,061	4,875,349
Cash and cash equivalents	11,234,752	11,035,643
	<u>14,846,813</u>	<u>15,910,992</u>

Financial liabilities

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Amortized cost</i>		
Loans and borrowings	133,659,841	121,410,538
Trade and other payables	19,662,794	22,088,704
	<u>153,322,635</u>	<u>143,499,242</u>

21 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The most significant financial risks to which the Company is exposed are described below.

Financial risk factors

a) Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk, which result from both its operating and financing activities.

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Most of the Company's transactions are carried out in Armenian drams. Exposures to currency exchange rates arise from the Company's overseas purchases, which are denominated in US dollars, as well as from loans and borrowings, which are primarily denominated in Japanese yen and US dollars.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Item

As of 31 December 2020	US dollar	Euro	Japanese yen
<i>Financial assets</i>			
Cash and cash equivalents	10,741	814	-
	<u>10,741</u>	<u>814</u>	<u>-</u>
<i>Financial liabilities</i>			
Loans and borrowings	19,463,237	-	107,596,840
	<u>19,463,237</u>	<u>-</u>	<u>107,596,840</u>
Net position	<u>(19,452,496)</u>	<u>814</u>	<u>(107,596,840)</u>

Item

As of 31 December 2019	US dollar	Euro	Japanese yen
<i>Financial assets</i>			
Cash and cash equivalents	-	682	1
	-	682	1
<i>Financial liabilities</i>			
Loans and borrowings	17,574,867	-	97,231,565
Trade and other payables	4	-	-
	17,574,871	-	97,231,565
Net position	(17,574,871)	682	(97,231,564)

The following table details the Company's sensitivity to a 15% (2019: 10%) increase and decrease in dram against US dollar and Japanese yen. 15% (2019: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 15% (2019: 10%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar and Japanese yen by 15% (2019: 10%) then this would have had the following impact:

In thousand drams	US dollar impact		Japanese yen impact	
	2020	2019	2020	2019
Profit or loss	2,917,874	1,757,487	16,139,526	9,723,156

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from financial assets, including cash and cash equivalents held at banks, trade and other receivables.

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Amortized cost</i>		
Trade and other receivables	3,612,061	4,875,349
Cash and cash equivalents	11,234,544	11,032,689
	14,846,605	15,908,038

The credit risk is managed on a group basis based on the Company's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks and deposits with banks are managed via diversification of bank deposits, and are only with major reputable financial institutions.

The Company's trade receivables are mainly from Electric Network of Armenia CJSC. Credit risk for these receivables are considered reasonable.

Trade receivables

The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

The expected loss rates are based on the payment profile for sales over the past 24 months before 31 December 2020 and 31 December 2019 respectively as well as the corresponding historical credit losses

during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. The Company has identified gross domestic product (GDP) and unemployment rates to be the most relevant factors and according adjusts historical loss rates for expected changes in these factors. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Failure to make payments within 365 days from the invoice date and failure to engage with the Company on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

c) *Liquidity risk*

Liquidity risk is the risk that the Company will be unable to meet its obligations.

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

2020	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate		0.95%	
Less than 6 months	19,662,794	2,728,431	22,391,225
6 months to 1 year	4,593,490	2,726,335	7,319,825
1-5 years	-	21,478,125	21,478,125
More than 5 years	-	116,018,961	116,018,961
	<u>24,256,284</u>	<u>142,951,852</u>	<u>167,208,136</u>
2019	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate		1.20%	
Less than 6 months	26,682,194	-	26,682,194
6 months to 1 year	-	5,107,377	5,107,377
More than 5 years	-	111,709,671	111,709,671
	<u>26,682,194</u>	<u>116,817,048</u>	<u>143,499,242</u>

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables, as well as trade receivables. The Company's cash and cash equivalents and trade receivables are significantly less than the current cash outflow requirements. The Company's management continuously monitors the Company's liquidity to ensure the availability of cash resources necessary for operating activities.

As of 31 December 2020 the Company's accounts payable includes significant balance from other state-owned companies whose payment period is periodically extended. Therefore, the liquidity risk for these amounts is reasonable.

22 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of the reporting date the Company does not have any financial assets and financial liabilities at fair value.

22.1 Fair value measurement of non-financial assets

The land, buildings, constructions and equipment of the Company are stated at revalued amount. The estimated fair values of the land, buildings, constructions and equipment are categorized within Level 2 and Level 3 of the fair value hierarchy. The fair values of those assets are estimated based on appraisals performed by independent, professionally-qualified property valuers who hold necessary licenses. The above property, plant and equipment were last revalued as of 31 December 2017 by independent valuer – Artin Enterprise LLC. The significant inputs and assumptions are developed in close consultation with management. Further information is set out below.

Land (Level 2)

The appraisal was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and purpose of use.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is subjective judgment, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

Buildings and constructions (Level 3)

The fair values of the buildings and constructions are estimated using replacement (expense) approach.

Under replacement method the fair value is determined by reference to the total expenditures required to construct a similar asset, reduced by estimated depreciation, which includes physical depletion, economical and functional depreciation as of the date of the valuation.

Equipment (Level 3)

The majority of the Company's equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar equipment is not active in the Republic of Armenia and does not provide a sufficient number of sales of comparable equipment for using a market-based approach for determining fair value. Consequently, the fair value of equipment was primarily determined using depreciated replacement cost.

23 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide adequate return to stakeholders.

The capital structure of the Company consists of equity comprising issued capital, reserves and accumulated profits and debt, which includes loans and borrowings disclosed in note 10.

Management assesses the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Company's various classes of debt. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the

amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital using a ratio of “net debt” to “adjusted equity”.

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Net debt</i>		
Loans and borrowings	133,659,841	121,410,538
Less: cash and bank balances	(11,234,752)	(11,035,643)
	<u>122,425,089</u>	<u>110,374,895</u>
<i>Adjusted equity</i>		
Total equity	(10,276,276)	1,695,326
	<u>(11.91)</u>	<u>65.11</u>
Net debt to adjusted equity ratio		

Change in ratio is mainly due to losses occurred in 2020.

24 Contingencies

24.1 Insurance

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

24.2 Taxes

The taxation system in Armenia is characterized by frequently changing legislation, which sometimes needs interpretations. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose fines and penalties.

On 1 January 2020, the chapter on the regulation of transfer pricing of the Tax Code of the Republic of Armenia came into force, which defines the peculiarities of transactions between related parties, defines the procedure for considering those transactions as controlled by the tax authority, as well as the procedure for submitting notification and documentation. The purpose of the mentioned regulations is to determine whether the financial performance of transactions between related parties is consistent with the arm's length principle, and in the event of inconsistency, the adjustment procedure for tax base computation purpose is established. The application of these regulations is subject to separate inspection by the tax authority, and the absence of required documentation or improper submission can result in significant consequences.

The mentioned chapter of the Tax Code contains many uncertainties, and similar regulations have not been applied in the Republic of Armenia in the past. As a result, there is no sufficient experience in interpreting and applying such regulations.

As of the date of these financial statements the Company carried out analysis consistent with regulations of transfer pricing, as a result of which concluded that the impact of this change on financial statements is not significant.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax

legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

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. As a result of the state examination N BP 000088 dated 15 October 2020 on report of assessment of impact of the upgrade of GT13E2 gas turbine compressor of combined cycle power unit with natural gas firing on environment, the Company obtained unqualified opinion. 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 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand drams	Long-term borrowings	Short-term borrowings	Total
as of 1 January 2019	115,060,876	9,900,731	124,961,607
<i>Cash-flows</i>			
Proceeds	272,329	-	272,329
Repayments, including interests	(5,423,618)	-	(5,423,618)
<i>Non-cash</i>			
Interest accrual	1,456,816	-	1,456,816
Foreign exchange loss	143,404	-	143,404
Reclassification	199,864	(199,864)	-
as of 31 December 2019	<u>111,709,671</u>	<u>9,700,867</u>	<u>121,410,538</u>
<i>Cash-flows</i>			
Proceeds	331,856	-	331,856
Repayments, including interests	(5,185,783)	-	(5,185,783)
<i>Non-cash</i>			
Interest accrual	1,171,405	-	1,171,405
Foreign exchange loss	15,931,825	-	15,931,825
Reclassification	458,739	(458,739)	-
As of 31 December 2020	<u><u>124,417,713</u></u>	<u><u>9,242,128</u></u>	<u><u>133,659,841</u></u>

26 Related parties

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.

26.1 Control relationships

The Company is controlled by the Government of the Republic of Armenia represented by the Ministry of Territorial Administration and Infrastructure.

26.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand drams			
Transactions		Year ended 31 December 2020	Year ended 31 December 2019
<i>Shareholder</i>			
Accrual of interest expenses		1,171,405	1,456,772
loans received		331,857	272,329
<i>Entities under common control</i>			
Acquisition of goods and services		2,634,540	2,733,221
<i>Key management</i>			
Salary and other remunerations		10,196	18,437
 <i>In thousand drams</i>			
Outstanding balances		As of 31 December 2020	As of 31 December 2019
<i>Shareholder</i>			
Loans and borrowings		129,066,351	116,817,048
<i>Entities under common control</i>			
Trade and other payables		4,018,712	5,059,878
Loans and borrowings		4,593,490	4,593,490
<i>Key management</i>			
Trade and other payables		521	2,580

27 Restatement of comparative financial statements

During 2020 the Company decided to restate the financial statements of prior year according to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* due to identification of errors related to prior year. As a result of the above, the Company management decided to make relevant adjustments in these financial statements, which were applied retrospectively based on the policy adopted by the Company.

Adjustments mainly refer to the dismantling and replacement of property, plant and equipment made by the Company in prior years, which were not recorded in the Company's accounts entirely. This adjustment effected on property plant and equipment, revaluation reserve, deferred tax balances, as well as financial result of the prior years.

Effect of the adjustment is reconciled as follows:

27.1 Statement of financial position

Reconciliation of restated financial statements as of 31 December 2019 and 1 January 2019 is presented below:

In thousand drams	As of 31 December 2019		
	According to previous statement	Restatement	Restated balance
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	123,882,672	(1,617,395)	122,265,277
Intangible assets	7,409		7,409
Deferred income tax assets	675,613	141,708	817,321
	<u>124,565,694</u>		<u>123,090,007</u>
<i>Current assets</i>			
Inventories	6,286,246	13,991	6,300,237
Trade and other receivables	6,888,031		6,888,031
Cash and cash equivalents	11,035,643		11,035,643
	<u>24,209,920</u>		<u>24,223,911</u>
Total assets	<u>148,775,614</u>		<u>147,313,918</u>
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	1,852,615		1,852,615
Share premium	11,264,865		11,264,865
Revaluation reserve	7,566,253	(1,523,091)	6,043,162
Accumulated loss	(17,526,711)	61,395	(17,465,316)
	<u>3,157,022</u>		<u>1,695,326</u>
<i>Non-current liabilities</i>			
Long-term loans and borrowings	111,709,671		111,709,671
	<u>111,709,671</u>		<u>111,709,671</u>
<i>Current liabilities</i>			
Short-term portion of loans and borrowings	9,700,867		9,700,867
Grants related to income	49,051		49,051
Trade and other payables	23,917,545		23,917,545
Current income tax liabilities	241,458		241,458
	<u>33,908,921</u>		<u>33,908,921</u>
Total equity and liabilities	<u>148,775,614</u>		<u>147,313,918</u>

In thousand drams

As of 1 January 2019

	According to previous statement	Restatement	Restated balance
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	130,617,644	(1,617,395)	129,000,249
Intangible assets	9,865		9,865
Deferred income tax assets	1,745,289	(90,330)	1,654,959
	<u>132,372,798</u>		<u>130,665,073</u>
<i>Current assets</i>			
Inventories	7,064,124		7,064,124
Trade and other receivables	7,757,606		7,757,606
Cash and cash equivalents	3,914,547		3,914,547
	<u>18,736,277</u>		<u>18,736,277</u>
Total assets	<u>151,109,075</u>		<u>149,401,350</u>
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	1,852,615		1,852,615
Share premium	11,264,865		11,264,865
Revaluation reserve	8,126,425	(1,331,905)	6,794,520
Accumulated loss	(19,348,969)	(375,820)	(19,724,789)
	<u>1,894,936</u>		<u>187,211</u>
<i>Non-current liabilities</i>			
Long-term loans and borrowings	115,060,876		115,060,876
	<u>115,060,876</u>		<u>115,060,876</u>
<i>Current liabilities</i>			
Short-term portion of loans and borrowings	9,900,731		9,900,731
Grants related to income	-		-
Trade and other payables	24,252,532		24,252,532
Current income tax liabilities	-		-
	<u>34,153,263</u>		<u>34,153,263</u>
Total equity and liabilities	<u>151,109,075</u>		<u>149,401,350</u>

27.2 Statement of profit or loss and other comprehensive income

In thousand drams	Year ended 31 December 2019		
	According to previous statement	Restatement	Restated balance
Revenue	74,975,272	-	74,975,272
Cost of sales	(68,789,792)	13,990	(68,775,802)
Gross revenue	6,185,480		6,199,470
Other income	77,255	-	77,255
Administrative expenses	(755,789)	-	(755,789)
Other costs	(2,369,638)	-	(2,369,638)
Impairment of assets	(121,907)	-	(121,907)
Results from operating activities	3,015,401		3,029,391
Finance income	1,035,074		1,035,074
Finance expense	(1,456,817)		(1,456,817)
Loss from exchange differences, net	(20,436)		(20,436)
Profit before income tax	2,573,222		2,587,212
Income tax expense	(1,311,134)	62,176	(1,248,958)
Profit for the year	1,262,087		1,338,254
<i>Other comprehensive income</i>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Revaluation of property, plant and equipment	-	169,861	169,861
Total comprehensive income for the year	1,262,087		1,508,115

Effect of the accumulated profit is reconciled as follows:

In thousand drams	As of 31 December 2019	As of 1 January 2019
Adjustment of revaluation reserve	1,602,623	1,241,575
Adjustment of balance of deferred tax liabilities	(62,176)	-
Property, plant and equipment written-off	(1,617,395)	(1,617,395)
Correction of depreciation expense of property, plant and equipment	13,991	-
	61,395	(375,820)