High Voltage Electric Networks CJSC
Financial statements
and
Independent Auditor's Report
For the year ended 31 December 2019

August 2020

The financial statements have been prepared in English and translated into Armenian. In case of discrepancies, the English version shall prevail.

High Voltage Electric Networks CJSC
Annual Financial Staetements
For the year ended 31 December 2019

Contents

Legal form: Closed Joint Stock Company

Principal activities: Electric power transmission

Board of Directors:

Tigran Melqonyan	Head of External Relations Department of Ministry of the Territorial Administration and Infrastructure of RA
Vardan Burnazyan	Deputy Director for Security and Control of the “Electric Networks of Armenia” CJSC
Armen Meliq-Israelyan	Head of Stock of Shares Management Department of the state property management committee of the Ministry of the Territorial Administration and Infrastructure of RA
Torgom Madoyan	Chairman of the Final Concluding Committee of the Institute of Energy and Electrical Engineering of NPUA, Director of “NT Service” LTD
Hayk Harutyunyan	General Director of “High Voltage Electric Networks” CJSC
Armen Manukyan	Head of Loan and Grant Projects Department of the Ministry of the Territiorial Administration and Infrastructure of RA

INDEPENDENT AUDITOR'S REPORT

To the shareholder of High Voltage Electric Networks CJSC

Qualified Opinion

We have audited the financial statements of "High Voltage Electric Networks" CJSC ("the Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the 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, except for the possible effects of the matters described in the "Basis for Qualified Opinion" paragraph, the accompanying financial statements present fairly, in all material respect, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

(1) As a result of the inspection of the Company's activities for 2012-2014 carried out by the Inspectorate for Financial and Budgetary Supervision of the Staff of the Ministry of Finance of the Republic of Armenia (Act No 30-A dated 18.01.2016), additional liability on dividends payable in the amount of 757.7 million drams and related fines in the amount of 166.4 million drams were charged to the Company, mainly due to accounting in respect of the Iran-Armenia gas pipeline.
At the same time, there are instructions of the Prime Minister of the Republic of Armenia (N02/23 15/2528-16 dated 25.06.2016 and N02/23 15/289-17 dated 12.01.2017) to suspend the inspection act and to address the raised issues after the completion of the gas pipeline sale deal.
Due to the uncertainties on the terms and timing of the sale of the pipeline as well as uncertainties on effectiveness of the inspection results, we were unable to assess the impact of the matters on the Company's liabilities, deferred tax assets and retained earnings reflected at the statement of financial position as at 31 December 2019.
The independent auditor's report on the financial statements for the year ended 31 December 2018 included the matter as basis for qualification.

(2) In December 2019, the Company has unilaterally terminated the contract dated May 2016 with Chinese contractor Liaoning-Efacec Electrical Equipment Co. LTD ("the Contractor") for reconstruction of Shinuhair and Agarak-2 substations. The termination was argued by continuing non-performance of the Contractor and breach of construction completion deadlines. As a result of the contract termination, the Company has received bank guarantee payment from a Chinese bank in the total amount of 1.4 million USD as a reimbursement for liquidating damages.
As at 31 December 2019 the following balances are related to the contract:

- Non-current prepayments of 340 million drams, included in the presented amount of 4,008 million drams (note 14),
- Non-resident withholding taxes of 95 million drams paid by the Company on behalf of the non-resident contractor, included in the presented amount of 2,059 million drams (note 13),
- Trade payable of 1,065 million drams, included in the presented amount of 14,012 million drams (note 21),
- Construction in progress of 6,428 million drams, included in the presented amount of 94,390 million (note 12).

The Company did not confirm the balances with the Contractor after the contract termination, as well as did not determine the recoverable value of the above assets as at 31 December 2019, despite the impairment indications which does not comply with the requirements of IAS 36, "Impairment of Assets".
Due to circumstances of the matter, we were unable to determine the impact of the matter on the carrying amount of non-current prepayments, prepaid non-resident withholding taxes, trade payables, construction-in-progress and deferred tax asset presented at the statement of financial positions as at 31 December 2019.
The independent auditor's report on the financial statements for the year ended 31 December 2018 included the matter as basis for qualification.

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 our other ethical responsibilities in accordance with these requirements and the IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matter – subsequent event

We draw your attention to Note 25 of the financial statements, which describes the uncertainty related to the outcome of the events subsequent to the reporting date of the financial statements. Our opinion was not modified in respect of this matter.

Responsibilities of the management and those charged with governance 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.

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

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.

Reasonable assurance is high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and 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 Foundation'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 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 Foundation'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 Foundation 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.

Conclusion on complying with other legal requirements
According to the Loan Agreement N 8055-AM concluded by and between the Republic of Armenia (RA) and the International Bank for Reconstruction and Development (IBRD) on 01 June 2011, and the provisions of clause 1. (a) of Section 5 of the Loan Agreement 8388-AM signed on 06 August 2014, as well as the provisions of sub-loan agreements signed by and between the RA Ministry of Finance and the Company, the latter cannot accumulate new debts unless the justified forecast of HVEN CJSC's income and expense shows that the net revenues expected by HVEN CJSC for each year at least 1.2 times exceed the necessary funds to cover the servicing of all debts (including new debts) during that year.
According to the Loan Agreement N-3150 ARM concluded between the Republic of Armenia and Asian Development Bank (ADB) on 5 September 2014, schedule 5 section 4 Financial ratios, the Company has to comply with specified limits of the financial figures.

In our opinion, the Company has fulfilled the above mentioned conditions as stipulated in the loan agreements during the year ended 31 December 2019.

"BDO Armenia" CJSC

Vahagn Sahakyan, FCCA
Managing partner

Gnel Khachatryan, FCCA
Engagement partner

5 August 2020

BDO

High Voltage Electric Networks CJSC

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	Note	2019 AMD'000	2018 AMD'000
Revenue	5	7,698,785	7,857,221
Cost of sales	6	(4,549,068)	(4,047,712)
Gross profit		3,149,717	3,809,509
Other income	7	1,208,981	143,288
Administrative expenses	8	(1,131,018)	(1,413,379)
Other expenses	9	(760,075)	(807,500)
Operating profit		2,467,605	1,731,918
Finance income	10	1,589,237	1,315,233
Finance costs	10	(1,389,406)	(1,606,591)
Foreign exchange gain		1,229,000	1,554,578
Profit before tax		3,896,436	2,995,138
Income tax expense	11	(1,457,420)	(554,692)
Net profit for the year		2,439,016	2,440,446
Other comprehensive income		-	-
Total comprehensive income for the year		2,439,016	2,440,446

The financial statements from pages 7 to 43 were approved by the Management of the Company on 5 August 2020 and signed by:

Hayk Harutyunyan
General Director

Gevorg Muradyan
Head of Accounting Departement-Chief Accountant

High Voltage Electric Networks CJSC
Statement of financial position
As of 31 December 2019

	Note	31.12.19 AMD'000	31.12.18 AMD'000
Non-current assets			
Property, plant and equipment	12	94,390,245	85,177,078
Intangible assets		101,164	128,025
Deferred tax assets	11	876,712	1,087,128
Trade and other receivables	13	273,200	494,803
Prepayments on PPE	14	4,008,557	5,841,190
		99,649,878	92,728,224
Current Assets			
Inventories	15	2,161,670	2,019,772
Trade and other receivables	13	1,786,379	2,077,147
Term deposits	16	5,724,458	6,804,127
Cash and cash equivalents	17	10,356,637	6,413,756
		20,029,144	17,314,802
Assets held for sale		76,520	76,602
Total assets		119,755,542	110,119,628
EQUITY AND LIABILITIES			
Equity			
Share capital		9,610,620	8,995,388
Share discount		(49,284)	(49,284)
Other reserves		451,842	272,344
Retained earnings		15,848,834	14,204,548
	18	25,862,012	23,422,996
Non-current liabilities			
Loans and borrowings	19	75,305,534	64,383,189
Grant liabilities	20	517,747	518,142
Provisions	22	586,878	-
		76,410,159	64,901,331
Current liabilities			
Loans and borrowings	19	2,377,970	4,018,182
Profit tax payable		1,093,701	981,747
Trade and other payables	21	14,011,700	16,795,372
		17,483,371	21,795,301
Total equity and liabilities		119,755,542	110,119,628

High Voltage Electric Networks CJSC
Statement of cash flows
For the year ended 31 December 2019

	Note	2019 AMD'000	2018 AMD'000
Cash flows from operating activities			
Profit for the year		**2,439,016**	2,440,446
Income tax expense		1,457,420	554,692
Profit *before tax*		**3,896,436**	2,995,138
Adjustments for:			
Depreciation and amortization		3,690,782	3,620,405
Loss/(gain) on disposal of PPE		(41,280)	1,151
Inventory surplus		(88,965)	-
Impairment of non-financial assets		88,286	-
Loss/(gain) on disposal of inventory		5,895	10,465
Finance costs		1,389,406	1,606,591
Finance income		(1,589,237)	(1,315,233)
Other loss/ (gain)		(855,440)	-
Income from grants		(3,011)	(904)
Exchange (gain)/loss		(1,229,000)	(1,554,578)
Operating cash flows before changes in working capital		**5,263,872**	**5,363,035**
(Increase)/decrease in trade and other receivables		560,926	1,434,328
(Increase)/decrease in inventories		(42,287)	(250,518)
Increase/(decrease) in provisions		704,505	-
Increase/(decrease) in trade and other payables		1,330,968	1,661,907
Cash from operating activities		**7,817,984**	**8,208,752**
Income tax paid		(1,135,050)	(1,529,993)
Net cash from operating activities		**6,682,934**	**6,678,759**
Cash flows from investing activities			
Payment for acquisition of PPE		(13,154,672)	(16,216,159)
Proceeds from disposal of PPE		50,000	2,750
Repayment of borrowings		1,772	320
Redemption/ (placement) of term deposits		1,223,875	738,038
Interest received		1,321,094	1,315,233
Net cash used for investing activities		**(10,557,931)**	**(14,159,818)**
Cash flows from financing activities			
Proceeds from loans and borrowings	**19**	12,018,212	15,362,954
Repayment of loans and borrowings	**19**	(1,642,664)	(1,279,596)
Interest paid	**19**	(2,549,811)	(1,922,415)
Net cash from financing activities		**7,825,737**	**12,160,943**
Net increase in cash and cash equivalents		3,950,740	4,679,884
Exchange (loss)/gain on cash and cash equivalents		(7,859)	6,168
Cash and cash equivalents at the beginning of the year		6,413,756	1,727,704
Cash and cash equivalents at the end of the year	**17**	**10,356,637**	**6,413,756**

High Voltage Electric Networks CJSC

Statement of changes in equity
For the year ended 31 December 2019

	Share capital AMD'000	Share Discount AMD'000	Other reserves AMD'000	Retained earnings AMD'000	Total AMD'000
Balance at 1 January 2019	**8,995,388**	**(49,284)**	**272,344**	**14,204,548**	**23,422,996**
Comprehensive income for the year					
Profit for the year	**-**	**-**	**-**	**2,439,016**	**2,439,016**
	-	**-**	**-**	**2,439,016**	**2,439,016**
Contributions by and distributions to shareholders					
Stock dividend (note 18)	**615,232**	**-**	**-**	**(615,232)**	**-**
Transfer to other reserves	**-**	**-**	**179,498**	**(179,498)**	**-**
	615,232	**-**	**179,498**	**(794,730)**	**-**
Balance as at 31 December 2019	**9,610,620**	**(49,284)**	**451,842**	**15,848,834**	**25,862,012**
Balance at 1 January 2018	8,995,388	(49,284)	272,344	11,764,102	20,982,550
Comprehensive income for the year					
Profit for the year	-	-	-	2,440,446	2,440,446
	-	-	-	2,440,446	2,440,446
Balance at 31 December 2018	**8,995,388**	**(49,284)**	**272,344**	**14,204,548**	**23,422,996**

High Voltage Electric Networks CJSC

Index to notes forming part of the financial statements
For the year ended 31 December 2019

1. About the Company

"High Voltage Electric Networks" closed joint stock company ("the Company") has been established by transfer of assets and operations of "High Voltage Electric Networks" subsidiary of "ArmEnergo" state closed joint stock company (the Republic of Armenia Government Decree #450 dated 20 July 1998) and is a legal successor of that subsidiary. "Specialised Maintenance of Power Supply Units" SCJSC was reorganized and merged into the Company based on the Republic of Armenia Government Decree #709 dated 23 November 1999.

On 10 February 2000 the Company was reregistered as closed joint stock company at the State Registry of the Republic of Armenia.

The Company is operating under the license # 0006 "On transmission of electricity in the Republic of Armenia" issued by the Ministry of Energy of the Republic of Armenia on June 18, 1999.

At 31 December 2019 the Armenian Government was the ultimate beneficiary of the Company, and acting through the Ministry of Energy Infrastructures and Natural Resources of the Republic of Armenia owned 100% of the voting ordinary shares (2018: 100%) (RA Government Decree #1694-N dated 6 November 2003).

The Company operates 8 branches throughout the country.

- Eastern Branch
- Western Branch
- Goris Branch
- Project Branch
- Administration of Construction of Energy Facilities Branch
- Zangezur Branch
- Northern Branch
- Southern Branch

The Company's principal activity is transmission of electric power to Armenian and foreign consumers through electric networks located in Armenia.
The Company also operates a wind power plant located in Lori region of Armenia with total production capacity of 2.64 megawatt.

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

The average number of the Company's employees during 2019 was 695 (2018: 805).

The Company is located 1 Zoravar Andranik, Yerevan, Republic of Armenia.

Armenian business environment
The Company's operations are located in Armenia. Consequently, the Company is exposed to the effects of changes of economic and financial markets of Armenia. Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

2019 can be considered a rather positive year for Armenian economy. GDP growth comprised 7.6% for the year. CPI has been quite stable over the last years (1.4%).

It is important to note that AMD/USD exchange rate has also been mostly stable, with slight fluctuations in AMD/EUR rates for the year 2019.

Overall, management believes that it is taking appropriate measures to support the sustainability of the Company's business under the current circumstances as well as ensuring relevant buffers to observe potential shocks in the near future.

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs).

The principal accounting policies adopted in the preparation of the financial statements are set out in note 26. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are presented in Armenian drams (AMD), which is also the Company's functional currency. Amounts are rounded to the nearest thousand (AMD'000), unless otherwise stated.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates and judgments. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

Basis of measurement

The financial statements have been prepared on a historical cost basis.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2019

- IFRS 16 Leases (IFRS 16);
- IFRIC 23 Uncertainty over income tax treatment (IFRIC 23).

IFRIC 23 Uncertainty over income tax treatment (IFRIC 23) had no significant effect on the Company's financial statements.

Lessor accounting under IFRS 16 is substantially unchanged from present accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating leases and finance leases. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

The Company does not have material lease contracts where it acts as a lessee.

b) New standards, interpretations and amendments not yet effective

There were no new standards, interpretations and amendments that are not yet effective that will have or may have an impact on the Company's future financial statements.

3. Critical accounting estimates and judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. 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.

<u>Estimates and assumptions</u>

Going concern
Management prepared these financial statements on a going concern basis. In making this judgement, management considered the Company's financial position, current intentions, profitability of operations and access to financial resources.

The management do not expect the situation to cause inappropriateness of going concern presumption due to expectations of continuing positive operating cash flows.

Significant factor having effect on the Company going concern assumption is the current global health emergency situation because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally (see note 25).

The management estimates that the negative effects of the spread of COVID19 and respective government policies would not materially affect Company's activities in the nearest term.
Two factors supporting this estimate are as follows;

- The sole shareholder of the Company is the RA Government,
- Company's revenue is generated from the revenue from electricity transmission based on tariffs imposed by the Public Services Regulatory Commission of the Republic of Armenia. The base for calculation of the tariff includes predicted costs incurred, thus insuring in the sufficient cash generated from operations.

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, therefore these financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.

Useful life of property, plant and equipment

The useful lives of property and equipment are based on management's estimates and may subsequently be changed (see note 26). At each reporting date, the Company's management reviews and, where appropriate, modifies the estimated useful lives of property, plant and equipment.

Impairment of non current tangible assets

At each reporting date, management of the Company determines whether there is any indication of impairment of non-current tangible assets. Indication of impairment includes changes in business plans, tariffs, and other factors leading to adverse effects for the Company.

Impairment of receivables

An allowance for expected credit losses on receivables is established based on management's assessment of the probability of repayment of debts of specific debtors. For the purpose of assessing credit losses, the Company sequentially considers all reasonable and corroborated information about past events, current and forecasted events, which is available without large effort and is appropriate for the assessment of receivables. Experience gained in the past is adjusted on the basis of current data in order to reflect current conditions that did not affect previous periods, and in order to exclude *the influence of past conditions that no longer exist.*

Income taxes

The Company is subject to income tax in Republic of Armenia. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination may be uncertain. As a result, the company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Fair value measurement

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value.

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.

4. Financial instruments - Risk Management

The Company is exposed through its operations to the following financial risks:

• Credit risk,
• Fair value or cash flow interest rate risk,
• Foreign exchange risk,
• Other price risk
• Liquidity risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

(a) Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risks arise, are as follows:

- Trade receivables
- Cash and cash equivalents
- Term deposits
- Trade payables
- Floating rate loans
- Fixed rate loans

(b) Financial instruments by category

Financial assets

	Measured at amortized cost	
	2019	**2018**
	AMD'000	**AMD'000**
Term deposits	**5,724,458**	6,804,127
Trade receivables	**1,512,875**	1,555,407
Cash and cash equivalents	**10,356,637**	6,413,756
	17,593,970	14,773,290

Financial liabilities

	Measured at amortized cost	
	2019	**2018**
	AMD'000	**AMD'000**
Trade payables	**3,796,491**	7,443,596
Loans and borrowings	**77,683,504**	68,401,371
Total financial liabilities	**81,479,995**	75,844,967

(c) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, as well as loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.
For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value of loans and borrowings, which are classified in level 3 of the fair value hierarchy, refer to Annex A.

General objectives, policies and processes

The General Director has overall responsibility for the determination of the Company's risk management objectives and policies. The General Director receives monthly reports from the Company's Financial Director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Company is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The companies are generally exposed to the credit risk from their operating activities (primarily for trade receivables).
Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 13.

Cash in bank and short-term deposits

A significant amount of cash is held with the following institutions:

	31 December 2019		31 December 2018	
	Cash AMD'000	**Bank Deposits AMD'000**	**Cash AMD'000**	**Bank Deposits AMD'000**
RA Treasury	**1,599**	**-**	102,038	-
Ardshinbank CJSC - rated Ba3 (Moody's)	**76,041**	**7,719,134**	64,527	5,947,053
Ameriabank CJSC - rated Ba3 (Moody's)	**42,158**	**-**	42,252	-
Armbusinessbank CJSC - not rated	**1,208,066**	**7,030,721**	22,149	7,038,334
Other	**2,812**	**-**	570	-
	1,330,676	**14,749,855**	**231,536**	**12,985,387**

The Company's Finance Director monitors the credit ratings of counterparties regularly and at the reporting date does not expect any losses from non-performance by the counterparties.

Market risk

Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also decrease or create losses in the event that unexpected movements occur.

Interest rate risk is managed principally through applying fixed-rate contracts and monitoring the analysis of interest rate review terms.

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

Fair value sensitivity analysis for fixed rate instruments
The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss for the period. The Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates

at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments
The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's statement of comprehensive income.

Currency	Increase (decrease) in basis points 2019 **AMD'000**	Sensitivity of net interest income 2019 **AMD'000**	Increase (decrease) in basis points 2018 **AMD'000**	Sensitivity of net interest income 2018 **AMD'000**
USD	0.20%	(112,442)	0.20%	(85,942)
USD	(0.01%)	5,622	(0.01%)	4,297

Foreign exchange risk

Foreign exchange risk arises when Company enter into transactions denominated in a currency other than their functional currency.

The Company's policy is, where possible, to allow the Company to settle liabilities (denominated in their functional currency) with the cash generated from their own operations in that currency.

In order to monitor the continuing effectiveness of this policy, the Board receives a monthly forecast, analyzed by the major currencies held by the Company, of liabilities due for settlement and expected cash reserves.

The Company's foreign currency risk mainly arises from liabilities on loans denominated in US dollars, Euro and SDR, as well as from purchases made from major suppliers in US dollars and Euro.

As at 31 December, the Company's net exposure to foreign exchange risk was as follows:

Net foreign currency assets/(liabilities)	**2019 AMD'000**	**2018 AMD'000**
Euro	**(32,094,343)**	(29,479,910)
US dollar	**(36,712,886)**	(34,621,685)
Special Drawing Rights	**(5,218,897)**	(5,255,096)
Net position, asset/(liability)	**(74,026,126)**	(69,356,691)

The effect of a 10% strengthening of Euro against Armenian dram at the reporting date on the Euro denominated financial instruments, all other variables held constant, would have resulted in a decrease in post-tax profit for the year and decrease of net assets of AMD 2,568 million (2018: AMD 2,358 million). A 10% weakening in the exchange rate would, on the same basis, have increased post-tax profit and net assets by the same amounts.

The effect of a 10% strengthening of US dollar against Armenian dram at the reporting date on the US dollar denominated financial instruments, all other variables held constant, would have resulted in a decrease in post-tax profit for the year and decrease of net assets of AMD 2,937 million (2018: AMD 2,770 million). A 10% weakening in the exchange rate would, on the same basis, have increased post-tax profit and net assets by the same amounts.

The effect of a 10% strengthening of SDR against Armenian dram at the reporting date on the SDR denominated financial instruments, all other variables held constant, would have resulted in a decrease in post-tax profit for the year and decrease of net assets of AMD 418 million (2018: AMD 420 million). A 10% weakening in the exchange rate would, on the same basis, have increased post-tax profit and net assets by the same amounts.

Liquidity risk

Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's policy is to ensure that it will always have sufficient cash available to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements in reasonable timeframe. The Company also seeks to reduce liquidity risk by attracting borrowings with fixed interest rate. This is further discussed in the 'interest rate risk' section.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the financial year, these projections indicated that the Company expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The liquidity risk of the Company is managed by the Company treasury function. Each operation has a facility with Company treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the Board in advance, enabling the Company's cash requirements to be anticipated. Where facilities of Company entities need to be increased, approval must be sought from the Company' Financial Director. Where the amount of the facility is above a certain level, agreement of the Board is needed.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

31 December 2019	Up to 6 months	Between 6 and 12 months	Between 1 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying value
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Trade payables	1,492,404		2,304,087		3,796,491	3,796,491
Loans and borrowings	1,666,166	2,224,872	27,505,964	71,128,930	102,525,932	77,683,504
Total	**3,158,570**	**2,224,872**	**29,810,051**	**71,128,930**	**106,322,423**	**81,479,995**

31 December 2018						
Trade payables	4,303,010	3,140,586	-	-	7,443,596	7,443,596
Loans and borrowings	1,666,166	2,224,872	27,505,964	71,128,930	102,525,932	68,401,371
Total	**5,969,176**	**5,365,458**	**27,505,964**	**71,128,930**	**109,969,528**	**75,844,967**

Capital Disclosures

The Company's capital includes the following components of equity: share capital, share premium, other reserves and retained earnings.

The Company's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its 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.

Consistent with others in the industry, the Company monitors capital on the basis of the debt to adjusted capital ratio. This ratio is calculated as net debt adjusted capital as defined above. Net debt is calculated as total debt (as shown in the consolidated statement of financial position) less cash and cash equivalents.

The debt-to-adjusted-capital ratios at 31 December 2019 and at 31 December 2018 were as follows:

	2019 AMD'000	2018 AMD'000
Loans and borrowings	77,683,504	68,401,371
Less: cash and term deposits	(16,081,095)	(13,217,883)
Net debt	**61,602,409**	**55,183,488**
Equity	**25,862,012**	**23,422,996**
Debt to adjusted capital ratio (%)	**238.20%**	**235.60%**

5. Revenue from contracts with customers

	2019 AMD'000	2018 AMD'000
Electricity transmission services		
Armenia	6,353,858	5,902,572
Iran	1,303,799	1,877,003
	7,657,657	7,779,575
Supply of electricity produced	41,128	61,796
Other services	-	15,850
	7,698,785	**7,857,221**

6. Cost of sales

	2019 AMD'000	2018 AMD'000
Depreciation and amortization	3,048,762	2,847,110
Employee benefits	1,434,250	1,100,508
Other	66,056	100,094
	4,549,068	**4,047,712**

7. Other income

	2019 AMD'000	2018 AMD'000
Recovery of impairment loss (1)	925,039	-
Inventory surplus	88,965	-
Operating lease income	54,638	56,372
Gain on sale of property, plant and equipment (net)	41,279	-
Compensation for damages	9,260	37,600
Grant income	3,408	1,249
Income from penalties	1,745	275
Other	84,647	47,792
	1,208,981	**143,288**

(1) In 2017, a decision was made to terminate the investment program of Armenia-Georgia high-voltage transmission lines (RA Government meeting 24.10 / 394769 -17 dated 21 February 2017) considering its implementation was not feasible under the particular circumstances.

As a result of numerous discussions about the necessity and value of the Program for Armenia and the discussions with the RA Prime Minister, on 30 October 2019 it was decided to continue the Program. Following this decision, in December 2019, "High Voltage Electric Networks" CJSC has negotiated new contracted terms with the consultant of the Program (Fichtner), in order to initiate new bidding process.

Management estimated the implementation of the Program as highly feasible. Therefore, the Company has recovered the prior periods impaired construction in progress balances to the extent (541,946 thousand AMD), as well as the KfW 75 million Euro loan service fee of 383,093 thousand AMD (EUR 750,000).

8. Administrative expenses

	2019 AMD'000	2018 AMD'000
Employee benefits	**781,605**	1,001,803
Depreciation and amortization	**131,461**	161,930
Non-recoverable taxes	**35,174**	50,093
Utilities	**53,372**	49,754
Travel and presentation	**22,877**	26,848
Fuel	**20,558**	35,383
Exploitation and maintenance costs	**8,455**	11,641
Audit and consulting	**14,057**	11,171
Other	**63,459**	64,756
	1,131,018	1,413,379

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including: General Director, Deputy General Director, chief engineer/technical director, branch managers, their deputies and chief engineers of the branches.

Compensation of key management personnel in 2019 amounted to 199 million drams (2018: 234 million drams).

9. Other expenses

	2019 AMD'000	2018 AMD'000
Depreciation and amortization	**510,559**	510,559
Impairment losses of non-financial assets	**197,814**	20,318
Loss on remeasurement of non-current receivable	**-**	137,259
Loss on disposal of property, plant and equipment	**24,210**	32,252
Late fees and penalties	**1,631**	35,784
Write-off of non-resident withholding tax	**-**	29,533
Other costs	**25,861**	41,795
	760,075	807,500

10. Finance income and costs

	2019 AMD'000	2018 AMD'000
Interest income on term deposits	1,451,252	1,312,906
Interest income on demand deposits	8,566	1,979
Effect of discounting non-current provisions	129,419	-
Other	-	348
	1,589,237	**1,315,233**
Interest expense on loans from RA Ministry of Finance	(1,377,170)	(1,606,024)
Unwinding of discount of non-current provisions	(11,792)	-
Interest expense on other loans	(444)	(567)
	(1,389,406)	**(1,606,591)**

11. Income tax

The Company accrues income tax for the current period in accordance with the requirements of the Armenia tax legislation, which may differ from IFRS. For the years ended 31 December 2019 and 2018, the corporate income tax rate was 20%.

As some expenses are not deductible for tax purposes and also due to their non-taxable nature, the Company has certain permanent tax differences.

Deferred tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount determined for tax purposes. The temporary differences as at 31 December 2019 and 2018 mainly resulted from different accounting methods for tax financial reporting purposes.

	2019	2018
Current tax expense	**AMD'000**	**AMD'000**
Current income tax expense	1,247,004	1,085,601
Total current tax	**1,247,004**	**1,085,601**
Deferred income tax expense/income		
Origination and reversal of temporary differences	101,703	(530,909)
Reduction in statutory tax rate	108,713	-
	210,416	**(530,909)**
Total income tax expense	**1,457,420**	**554,692**

The income tax rate for the current year was 20% in accordance with Tax Code of the Republic of Armenia (2018: 20%). The income tax rate was set to 18% from 1 January 2020. Current year profit tax was calculated using 20% rate, while the deferred tax as at reporting date: 18% rate.

Reconciliation of the tax rate

	2019 AMD'000	2018 AMD'000
IFRS profit before taxation	**3,896,436**	**2,995,138**
Profit tax calculated at statutory tax rate of 20% (2018: 20%)	**779,287**	**599,028**
Impact of statutory profit tax rate change	**(108,713)**	**-**
Tax effect of permanent differences	**786,846**	**(44,336)**
Total income tax expense	**1,457,420**	**554,692**

The following shows the tax effect on the main temporary differences that give rise to deferred income tax assets and liabilities as at 31 December 2019 and 2018:

	2019 AMD"000	2018 AMD"000	Recognized in profit or loss AMD"000
Accelerated depreciation and amortization	(7,410,602)	(7,737,419)	326,817
Borrowing costs	864,314	1,375,900	(511,586)
Impairment of non-current assets	2,677,674	3,111,398	(433,724)
Impairment of inventories	62,302	-	62,302
Advances received	9,157,100	8,979,709	177,391
Vacation leaves provision	252,327	146,095	106,232
Non-current accounts receivable discounting	232,363	933,964	(701,601)
Grant liabilities	145,140	146,865	(1,725)
Assets held for sale	17,742	17,757	(15)
Advances made	-	(25,510)	25,510
Non-current provision	586,878	-	586,878
Trade payable write off	168,520	-	168,520
Loans and borrowings	(1,883,136)	(1,513,119)	(370,017)
Deferred tax asset, net	4,870,622	5,435,640	(565,018)
Deferred income tax, 18% (2018: 20%)	876,712	1,087,128	(210,416)

12. Property, plant and equipment

	Land	Buildings and Constructions	Infrastructure Equipment	Machinery and Equipment	Vehicles	Other	Construction in Progress	Total
(a) Cost	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*	*AMD'000*
As at 1 January 2018	**1,575,387**	**7,430,256**	**67,373,619**	**54,470,210**	**760,069**	**2,097,116**	**34,761,994**	**168,468,651**
Additions	34,292	10,465	204,015	16,354	716,332	162,003	18,422,406	**19,565,867**
Disposals	-	-	(290,158)	(14,779)	-	(3,578)	-	**(308,515)**
Transfers to complete	-	-	13,889,088	102,055	-	-	(13,991,143)	**-**
Other movements	(3,901)	-	(85,000)	-	(87,450)	(6,032)	(468,805)	**(651,188)**
As at 31 December 2018	**1,605,778**	**7,440,721**	**81,091,564**	**54,573,840**	**1,388,951**	**2,249,509**	**38,724,452**	**187,074,815**
As at 1 January 2019	**1,605,778**	**7,440,721**	**81,091,564**	**54,573,840**	**1,388,951**	**2,249,509**	**38,724,452**	**187,074,815**
Additions	**13,056**	**382,741**	**44,191**	**55,951**		**10,519**	**12,162,123**	**12,668,581**
Disposals	**-**	**(132,460)**	**(262,460)**	**(475,579)**	**(58,043)**	**-**	-	**(928,542)**
Transfers to inventory	-	-	-	-	-	-	**(125,126)**	**(125,126)**
Transfers to complete	**-**	**883,503**	**309,861**	**5,431,263**	**390**	**87,592**	**(6,712,609)**	**-**
Other movements	**-**	**-**	**(52,947)**	**(949)**	-	**-**	**-**	**(53,896)**
As at 31 December 2019	**1,618,834**	**8,574,505**	**81,130,209**	**59,584,526**	**1,331,298**	**2,347,620**	**44,048,840**	**198,635,832**
(b) Accumulated depreciation								
As at 1 January 2018	**-**	**5,385,878**	**49,955,127**	**38,413,862**	**491,520**	**1,327,979**	**-**	**95,574,366**
Depreciation charge	**-**	211,950	1,480,967	1,578,164	91,961	141,880	-	**3,504,922**
Disposals	**-**	-	(264,309)	(8,377)	(16,880)	(3,578)	-	**(293,144)**
As at 31 December 2018	**-**	**5,597,828**	**51,171,785**	**39,983,649**	**566,601**	**1,466,281**	**-**	**98,786,144**
As at 1 January 2019	**-**	**5,597,828**	**51,171,785**	**39,983,649**	**566,601**	**1,466,281**	**-**	**98,786,144**
Depreciation charge	-	**241,668**	**1,433,406**	**1,758,442**	**99,930**	**136,337**	-	**3,669,783**
Disposals	-	**(129,715)**	**(240,995)**	**(471,230)**	**(57,842)**	-	-	**(899,782)**
Other movements	-	**-**	**-**	**-**	**189**	**(189)**	-	**-**
As at 31 December 2019	**-**	**5,709,781**	**52,364,196**	**41,270,861**	**608,878**	**1,602,429**	**-**	**101,556,145**
(c) Accumulated impairment								
As at 1 January 2018	**-**	**6,923**	**147,171**	**1,890,554**	**1,820**	**17,475**	**1,029,468**	**3,093,411**
Impairment	**-**	-	-	-	-	-	18,182	18,182
As at 31 December 2018	-	**6,923**	**147,171**	**1,890,554**	**1,820**	**17,475**	**1,047,650**	**3,111,593**
As at 1 January 2019	**-**	**6,923**	**147,171**	**1,890,554**	**1,820**	**17,475**	**1,047,650**	**3,111,593**
Recovery of impairment	**-**	**-**	**-**	**-**	**-**	**-**	(541,946)	**(541,946)**
Impairment	**-**	**419**	**-**	**11,154**	**-**	**-**	**108,222**	**119,795**
As at 31 December 2019	**-**	**7,342**	**147,171**	**1,901,708**	**1,820**	**17,475**	**613,926**	**2,689,442**
(d) Net Book Value								
As at 1 January 2018	1,575,387	2,037,455	17,271,321	14,165,794	266,729	751,662	33,732,526	69,800,874
As at 31 December 2018	1,605,778	1,835,970	29,772,608	12,699,637	820,530	765,753	37,676,802	85,177,078
As at 31 December 2019	**1,618,834**	**2,857,382**	**28,618,842**	**16,411,957**	**720,600**	**727,716**	**43,434,914**	**94,390,245**

Iran-Kajaran gas pipeline at the carrying amount of 9,913,362 thousand drams (included in infrastructure assets) was built back in 2007 for transportation of natural gas from Iran to Armenian national gas distribution network. Upon completion of construction the Company signed a preliminary agreement with Gazprom Armenia CJSC on sale of the pipeline, with the final sale arrangement to complete in the same year (2007). Gazprom Armenia CJSC has paid an advance of 9,137,100 thousand drams in 2007. However, the sale transaction did not take place and the preliminary agreement has been extended for several times consecutively with the last extension going to the end of 2020.

Property, plant and equipment of the Company at the carrying amount of 26,150 million drams have been pledged as a security for loans and borrowings as of 31 December 2019 (2018: 21,381 million drams).

Additions of property, plant and equipment comprise the following:

	2019 AMD'000	2018 AMD'000
Acquisitions	11,185,677	18,146,425
Borrowing costs capitalized	1,201,923	1,205,240
Other capitalized expenses	234,698	214,202
Proficit from counting	46,283	-
	12,668,581	19,565,867

All the Company's borrowings are specifical and directly attributable to construction of particular assets.

Depreciation charge has been distributed among the following items:

	2019 AMD'000	2018 AMD'000
Cost of sale	3,037,518	**2,842,754**
Administrative expenses	121,706	**151,609**
Other expenses	510,559	**510,559**
	3,669,783	**3,504,922**

As at 31 December 2019, the cost of fully depreciated property, plant and equipment was 36,559 million drams (31 December 2018: 35,781 million drams).

13. Trade and other receivables

	2019 AMD"000	2018 AMD"000
Trade receivables on electricity transmission service	**1,492,337**	1,533,155
Trade receivables on supply of electricity produced	**6,677**	11,715
Operating leases receivable	**5,404**	5,849
Other receivables	**5,541**	-
Loans to related parties	**2,916**	**4,688**
Total financial assets, except for cash and cash equivalents	**1,512,875**	1,555,407
Advances to suppliers	**116,891**	244,091
Prepaid non-resident withholding taxes	**323,966**	331,891
Other prepaid taxes	**103,459**	437,926
Other	**2,388**	2,635
Total trade and other receivables	**2,059,579**	2,571,950
Less: Non current	**(273,200)**	(494,803)
Current	**1,786,379**	2,077,147

The carrying value of trade and other receivables classified as financial assets at amortised cost approximates fair value.

Trade receivables on electricity transmission service include the amount of 662 million drams receivable from Yerevan Thermal Power Center CJSC (2018: AMD 843 million drams). According to the agreement signed with Yerevan Thermal Power Center CJSC in November 2017, the parties agreed the remaining balance of 495 million drams (2018: 744 million drams) will be paid until May 2022. At 31 December 2019, the above-mentioned receivable balance was discounted at 12% interest rate, which is a reasonable estimate for the counterparty's incremental borrowing rate. The entire balance receivable from Yerevan Thermal Power Center CJSC in the amount of 273 million drams was classified as non-current as at 31 December 2019 (2018: 495 million drams).

The average duration of trade receivable from sales of goods and services is 1 month (2018: 1 month).

As at 31 December 2019 and 2018 there were no receivables passed due but not impaired.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the Company's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers.
Company's management believes expected credit loss in respect of overdue trade receivables is not material.

Prepaid balances to the state budget include:

	2019 AMD'000	2018 AMD'000
Value added tax	**99,757**	418,791
Other taxes	**3,702**	19,135
	103,459	437,926

14. Prepayments

	2019 AMD'000	2018 AMD'000
Prepayments for acquisition of non-current assets	**3,145,052**	**5,376,558**
Loan service charges	**847,525**	**464,432**
Other	**15,980**	**200**
	4,008,557	**5,841,190**

Prepaid loan charges include insurance and other charges paid to the lenders as follows:

	2019 AMD'000	2018 AMD'000
Credit Institute for Reconstruction (KfW)	**820,670**	437,577
European Investment Bank (EIB)	**26,855**	26,855
	847,525	464,432

In 2017, a decision was made to terminate the investment program of Armenia-Georgia high-voltage transmission lines (RA Government meeting 24.10 / 394769 -17 dated 21 February 2017) considering its implementation not feasible under the particular circumstances.

As a result of numerous discussions about the necessity and value of the Program for Armenia and the discussions with the RA Prime Minister, it was decided 30 October 2019 to continue the Program. Following this decision, in December 2019, "High Voltage Electric Networks" CJSC has negotiated new contracted terms with the consultant of the Program (Fichtner), in order to initiate new bidding process.

Considering the above mentioned, the management has estimated at 31 December 2019 the implementation of the Program as highly feasible. Therefore, the Company has recovered the prior periods impaired construction in progress balances to the extent (541,946 thousand AMD), as well as the KfW 75 million Euro loan service fee of 383,093 thousand AMD (EUR 750,000).

15. Inventories

	2019 AMD'000	2018 AMD'000
Construction materials	651,216	637,503
Other materials and consumables	776,362	652,183
Spare parts	350,357	333,949
Other	383,735	396,137
	2,161,670	2,019,772

Inventories recognised as an expense during the year ended 31 December 2019 amounted to 70,772 thousand drams (2018: 88,527 thousand drams). These were included in cost of sales, 37,058 thousnad drams (2018: 47,564 thousand drams), administrative expenses, 27,686 thousand drams (2018: 40,963 thousand drams) and in other expenses, 6,028 thousand drams (2018: nil).

Write-downs of inventories to net realisable value amounted to 62,302 thousand drams (2018: nill). These expenses were recognised in other expense in the statement of profit or loss (note 9).

16. Term deposits

	Contract amount AMD'000	Interest rate	Maturity	2019 AMD'000	2018 AMD'000
ArmBusiness bank	3,600,000	12.0%	2020	3,618,937	3,624,362
ArmBusiness bank	3,400,000	11.5%	2020	3,411,784	3,413,973
Ardshinbank	3,410,000	6.0%	2019	-	3,440,843
Ardshinbank	4,412,000	7.0%	2020	4,453,961	-
Ardshinbank	710,915	3.5%	2020	711,256	-
Ardshinbank	2,500,000	12.3%	2020	2,553,917	2,506,209
				14,749,855	12,985,387
Less: short-term deposits classified as cash equivalents				(9,025,397)	(6,181,260)
Total classified as term deposits				5,724,458	6,804,127

17. Cash and cash equivalents

	2019 AMD'000	2018 AMD'000
Bank accounts	1,330,676	231,536
Short-term deposits classified as cash equivalents	9,025,397	6,181,260
Cash on hand	564	960
	10,356,637	6,413,756

Breakdown of cash held in bank accounts by servicing banks is presented in Note 4.

18. Share capital and reserves

The share capital has increased by the amount of stock dividend declared in 2019 for operational year 2018. The number of shares was 648,363 at 31 December 2018 and no new shares were issued in 2019. The increase was secured by a raise in the share nominal value, from 13,874.00 drams at 31 December 2018 to 14,822.90 drams at 31 December 2019.

The Company established a reserve capital target at 15% of the share capital for covering future losses and makes 5% transfers from the annual net profit each year until the amount reaches the mentioned target. The Company has made cumulative 179,498 thousand drams as at the end of 2019.

In 2019, a dividend of 615,232 thousand drams was declared (2018: no dividend was declared).

19. Loans and borrowings

This note provides information about the contractual terms of the Company’s loans and borrowings, which are measured at amortised cost. Information about the Company’s exposure to interest rate and foreign currency risk is presented in Note 4.

	2019 AMD'000	2018 AMD'000
Current		
Secured loans from the Ministry of Finance	2,145,210	3,333,156
Other secured loans	232,760	685,026
	2,377,970	4,018,182
Non-current		
Secured loans from the Ministry of Finance	55,492,217	51,466,115
Other secured loans	19,813,317	12,917,074
	75,305,534	64,383,189
Total loans and borrowings	77,683,504	68,401,371

The carrying amount of the loans and borrowings is considered to be a reasonable estimate of their fair value.

Below are the Company's loans and borrowings presented by currencies:

	2019 AMD'000	2018 AMD'000
Armenian dram	6,680,562	6,307,576
Euro	30,637,322	25,181,964
US dollar	35,146,723	31,656,736
Special Drawing Rights (SDR)	5,218,897	5,255,095
	77,683,504	68,401,371

The Company signed sub-loan agreements with the Ministry of Finance of the Republic of Armenia to fund modernization projects. These sub-loan agreements were preceded by the loan agreements signed by and between the Ministry of Finance of Armenia and international financial institutions.

As at 31 December 2019 the Company has 153,153 million drams of undrawn borrowing facilities (December 31, 2018: 160,195 million drams).

Terms and conditions of outstanding loans and borrowings were as follows:

Lender	Contract amount (in currency)	Currency	Year of Maturity	Contract int. rate	EIR	2019 ´000 AMD	2018 ´000 AMD	Project financed
Loans provided by RA Ministry of Finance								
IBRD	39,000,000	USD	2036	RR +1%*	4.49%	16,201,175	15,192,113	Reliability of the power transmission network
Ministry of Finance Co-financing IBRD	N/A**	AMD	2036	RR +1%*	4.07%	3,650,700	3,353,187	Reliability of the power transmission network
IBRD	37,500,000	USD	2039	RR +1%*	4.41%	9,426,401	6,352,136	Reliability of the power transmission network
Ministry of Finance Co-financing IBRD	N/A**	AMD	2039	RR +1%*	4.45%	774,414	592,197	Reliability of the power transmission network
IBRD	28,194,486	USD	2039	RR*	4.50%	3,306,635	3,157,251	Electricity Transmission Network Improvement
Ministry of Finance Co-financing IBRD	N/A**	AMD	2039	RR*	3.82%	834,995	906,774	Electricity Transmission Network Improvement
ADB	15,192,292	SDR	2039	3.14%	3.12%	5,218,897	5,255,095	Power Transmission Rehabilitation Project
Ministry of Finance Co-financing ADB	N/A**	AMD	2039	3.14%	3.13%	1,170,563	1,195,134	Power Transmission Rehabilitation Project
KFW	10,200,000	EUR	2054	0.75%	4.17%	519,359	529,819	Caucasus Transmission Network
Ministry of Finance Co-financing KFW	N/A**	AMD	2054	0.75%	0.75%	218,582	218,582	Caucasus Transmission Network
KFW	83,000,000	EUR	2030	1.80%	1.80%	-	-	Caucasus Transmission Network III
KFW	7,300,000	EUR	2049	0.75%	0.75%	3,793,300	4,040,733	Rehabilitation of the substation Gyumri II
KFW	7,300,000	EUR	2024	2.76%	6.69%	1,342,437	1,662,574	Rehabilitation of the substation Gyumri II
KFW	14,060,000	EUR	2038	0.75%	0.72%	4,967,459	5,388,440	Power Transmission system Rehabilitation
KFW	75,000,000	EUR	2029	1.85%	1.85%	-	-	Caucasus Transmission Network I
World Bank (WB)	19,600,000	USD	2033	0.50%	0.50%	5,328,244	5,758,220	Power transmission and distribution systems
Ministry of Finance	8,988,290	USD	2022	0.50%	0.49%	884,265	1,197,016	Assistance to Energy system
EIB	10,000,000	EUR	TBD	TBD	-	-	-	Caucasus Transmission Network I
Total loans from MF						**57,637,426**	**54,799,271**	
Other loans								
Export Development bank of Iran (EDBI)	83,083,000	EUR	2026	4.00%	5.70%	15,489,398	10,794,956	Iran-Armenia 400 kV third power transmission line and substation
SUNIR International FZE	24,817,000	EUR	2021	3.00%	4.33%	4,525,372	2,765,443	Iran-Armenia 400 KV third power transmission line and substation
Armenia renewable resources and energy efficiency Fund (R2e2)	77,500,000	AMD	2024	0.00%	12.00%	31,308	41,701	Energy saving program
Total other loans						**20,046,078**	**13,602,100**	
Total loans						**77,683,504**	**68,401,371**	

(*) The variable interest rate (on IBRD loans and the loans with IBRD co-financing) equals the reference rate, RR (six-month LIBOR for loan currency) plus the variable spread. The variable spread includes a contractual spread, a maturity premium (where applicable), and a charge to cover the Bank's average funding cost relative to LIBOR, wherein the benefits and risks of changes in IBRD's cost of borrowing are borne by the borrower. The variable spread is recalculated every January 1, April 1, July 1 and October 1 based on the cost of the underlying funding for these loans.
(**) The co-financing provided by RA Ministry of Finance has not been defined in the loan contracts.

Changes in liabilities arising from financing activities

				Cash flows			Non-cash flows		
Lender	Contract amount (in currency)	Currency	At 1 January 2019	Proceeds from loans and borrowings	Repayment of loans and borrowings	**Interest repaid**	Interest accrued	Effect of foreign curr. revaluation	At 31 December 2019
IBRD	39,000,000	USD	15,192,113	1,240,091	-	(674,077)	567,735	(124,687)	16,201,175
Ministry of Finance Co-financing IBRD		AMD	3,353,187	323,250	-	(153,160)	127,423	-	3,650,700
EDBI	83,083,000	EUR	10,794,956	4,923,049	-	(634,765)	760,804	(354,647)	15,489,397
World Bank	19,600,000	USD	5,758,220	-	(371,737)	(35,153)	25,738	(48,822)	5,328,246
KFW	14,060,000	EUR	5,388,440	-	(251,815)	(47,475)	38,018	(159,710)	4,967,458
KFW- Tranche 1	7,300,000	EUR	4,040,733	-	(127,873)	(29,176)	29,391	(119,774)	3,793,301
KFW- Tranche 2	7,300,000	EUR	1,662,574	-	(326,845)	(47,378)	103,861	(49,775)	1,342,437
Ministry of Finance	8,988,290	USD	1,197,016	-	(286,458)	(20,499)	5,681	(11,474)	884,266
ADB	15,192,292	SDR	5,255,095	160,394	(129,613)	(160,394)	162,837	(69,422)	5,218,897
Ministry of Finance Co-financing ADB		AMD	1,195,134	7,000	(31,586)	(37,368)	37,383	-	1,170,563
IBRD	37,500,000	USD	6,352,136	3,122,597	-	(268,781)	262,541	(42,092)	9,426,401
Ministry of Finance Co-financing IBRD		AMD	592,197	182,548	(563)	(24,118)	24,349	-	774,413
SUNIR International FZE	24,817,000	EUR	2,765,443	1,800,151	-	(106,017)	165,905	(100,111)	4,525,371
IBRD	28,194,486	USD	3,157,251	219,378	-	(153,967)	109,635	(25,661)	3,306,636
Ministry of Finance Co-financing IBRD		AMD	906,774	39,754	(105,338)	(33,389)	27,194	-	834,995
KfW	10,200,000	EUR	529,819	-	-	(16,246)	21,588	(15,803)	519,358
Ministry of Finance Co-financing KFW		AMD	218,582	-	-	(1,639)	1,639	-	218,582
R2e2 - Zangezur and Goris branches	27,600,000	AMD	16,553	-	(3,067)	-	183	-	13,669
R2e2 – Eastern branch	26,900,000	AMD	12,844	-	(4,483)	-	130	-	8,491
R2e2 – Southern branch	23,000,000	AMD	12,304	-	(3,286)	-	130	-	9,148
KfW	83,000,000	EUR	-	-	-	(111,486)	112,097	(611)	-
KfW	75,000,000	EUR	-	-	-	(100,740)	101,292	(552)	-
			68,401,371	**12,018,212**	**(1,642,664)**	**(2,655,828)**	**2,685,554**	**(1,123,141)**	**77,683,504**
Less: set off with Sunir FZE (non cash)		EUR	-	-	-	106,017	(106,017)	**-**	**-**
Total			**68,401,371**	**12,018,212**	**(1,642,664)**	**(2,549,811)**	**2,579,537**	**(1,123,141)**	**77,683,504**

Changes in liabilities arising from financing activities (in contract currency)

Lender	Contract amount (in currency)	Currency	As of January 1, 2019	Loans received	Repaid	Interest repaid	Interest accrued	At 31 December 2019
IBRD	39,000,000	USD	31,404,885	2,590,000	-	(1,406,808)	1,185,478	33,773,555
EDBI	83,083,000	EUR	19,497,798	9,099,757	-	(1,188,950)	1,421,752	28,830,357
World Bank	19,600,000	USD	11,903,296	-	(776,190)	(73,400)	53,747	11,107,453
KFW	14,060,000	EUR	9,732,575	-	(468,684)	(88,354)	70,375	9,245,912
KFW-Tranche 1	7,300,000	EUR	7,298,351	-	(238,000)	(54,299)	54,402	7,060,454
KFW-Tranche 2	7,300,000	EUR	3,002,933	-	(608,333)	(88,137)	192,210	2,498,673
Ministry of Finance	8,988,290	USD	2,474,451	-	(600,000)	(42,954)	11,877	1,843,374
ADB	15,192,292	SDR	7,834,188	242,769	(197,744)	(242,769)	246,372	7,882,816
IBRD	37,500,000	USD	13,131,030	6,530,799	-	(558,867)	547,655	19,650,617
SUNIR FZE	24,817,000	EUR	4,994,930	3,315,443	-	(197,461)	310,144	8,423,056
IBRD	28,194,486	USD	6,526,618	459,000	-	(321,409)	228,922	6,893,131
KFW	10,200,000	EUR	956,957	-	-	(30,238)	39,961	966,680
KFW	83,000,000	EUR	-	-	-	(207,500)	207,500	-
KFW	75,000,000	EUR	-	-	-	(187,500)	187,500	-
			118,758,012	**22,237,768**	**(2,888,951)**	**(4,688,646)**	**4,757,895**	**138,176,078**
Less: set off with Sunir FZE (non cash)		EUR	**-**	**-**	**-**	**197,461**	**(197,461)**	**-**
Total			**118,758,012**	**22,237,768**	**(2,888,951)**	**(4,560,434)**	**4,757,895**	**138,176,078**

20. Grant liabilities

	2019 AMD'000	2018 AMD'000
Balance at the beginning of year	518,142	519,046
Received during the year	-	-
Recognized in profit or loss	(395)	(904)
Balance at the end of year	517,747	518,142

Balance of grant liabilities breakdown by the donor organizations is as follows:

	2019 AMD'000	2018 AMD'000
Neighborhood Investment Facility (NIF)	233,846	233,846
Credit Institute for Reconstruction (KfW)	131,143	131,144
International Bank for Reconstruction and Development (IBRD)	145,338	145,338
Other	7,420	7,814
	517,747	518,142

The Company received grants from international banks and financial institutions for the implementation of the following projects:

- Investment and technical assistance for connection of Armenian and Georgian power Grid
- Construction and consulting work on Caucasus Transmission Network (Transmission Line and HDVC Station between Armenia and Georgia)
- Preparation of the Electricity Transmission Network Improvement Project, consulting and trainings.

21. Trade and other payables

	2019 AMD'000	2018 AMD'000
Payables on acquisition of property, plant and equipment	3,456,187	7,406,213
Trade payables	340,304	37,383
Total financial liabilities measured at amortized cost except for loans and borrowings	3,796,491	7,443,596
Prepayments received*	9,158,814	9,159,899
Accrued payroll	165,676	132,660
Taxes and duties payable	160,419	59,192
Provision for unbilled construction works**	730,300	-
Other	-	25
	14,011,700	16,795,372

**Prepayment received represents amount received from Gazprom Armenia CJSC in 2007 for the acquisition of Iran Kajaran gas pipeline as described in Note 12.*

***Provision was recognized for the estimated construction works completed in the reporting year, which were however not billed by the contractors as at year-end.*

Payables on acquisition of property and equipment include balances of the following counterparties:

	2019 AMD'000	2018 AMD'000
SUNIR	**1,148,705**	4,258,225
Liaoning-Efacec Electrical EquipmentCo. LTD	**1,065,626**	1,178,772
Xian Electric Engineering Co LTD China	**956,856**	938,584
KASKAD-ENERGO LLC	**-**	799,983
EFACECENGENHARIAESISTEMASS.A.	**98,397**	116,370
GAM ARAK INDUSTRIAL COMPANY	**183,208**	106,877
Other	**3,395**	7,402
	3,456,187	7,406,213

The fair value of trade and other payables measured at amortised cost does not materially differ from their carrying value.

Movements in provisions are as follows;

2019	Unused vacations	Accrual for construction works	Total
Carrying amount at start of year	**129,551**	-	129,551
Charged during year	190,539	730,300	920,839
Used during year	(155,137)	-	(155,137)
Carrying amount at end of year	**164,953**	730,300	895,253

22. Provisions

In December 2019, the Company has unilaterally terminated the contract dated May 2016 signed with its Chinese contractor Liaoning-Efacec Electrical Equipment Co.LTD (hereinafter referred to as the Contractor) for restoration of Shinuhair and Agarak substation 2. The basis for unilateral termination was continuing non-performance of the Contractor and breach of contract deadlines affecting timely completion of the construction works. Following the contract termination, the Company has received bank guarantee payment from Chinese bank in the total amount of 1.4 million USD as a reimbursement for liquidating damages. Considering the aforementioned contract has been terminated unilaterally, the Company is not sure the Contractor will not dispute the above amount. Therefore, a provision was recognized in line with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” Contingencies, until uncertainties resolve. Due to its non-current nature the probable future outflow of financial resources was discounted at the rate reflecting market conditions, which existed at the time of liability recognition. The movement in provision is as follows

2019	Provision for disputed cash balance **AMD'000**
Carrying amount at start of year	**-**
Charged during year	704,505
Effect of discounting non-current provision	(129,419)
Unwinding of discount	11,792
Carrying amount at end of year	**586,878**

23. Related party transactions

(a) Control relationships

As at 31 December 2019 the parent of the Company was the Government of the Republic of Armenia who owns 100% of the Company's shares, so all state-owned enterprises are considered to be affiliated with the Company.

(b) Transactions with the parent and other entities under the parent's control

Key related party balances as at 31 December 2019 and 2018 are presented below:

	2019 AMD'000	2018 AMD'000
Loans and borrowings (Note 19)	**57,637,426**	**54,799,271**
Cash in hand and bank (Note 17)	1,599	

Key management personnel compensation is disclosed in Note 8.

24. Contingencies and commitments

(a) Purchase commitments

As at 31 December 2019, the Company has purchase commitments in respect to the construction and rehabilitation of substations, overhead lines, etc., in the total amount of 38,633 million drams.

(b) Penalties on construction contracts

The Company has accrued penalties in the total amount of 1,494,859 thousand drams against the breach of construction contracts (scheduled works) by the three major contractors, as well as penalty(overdue interest) in the amount of 1,150,800 thousand drams on the outstanding overdue balance due from another major contractor (the balance was provided by the Company to the contractor as bridge financing in earlier period). The management estimates the collectability of these balances very low. Therefore, no income in respect of the mentioned penalties and overdue interest was recognized in the financial statements as of and for the year ended 31 December 2019. Penalties have been accrued for the total period of delay of the contract deadlines on the total amount of the contracts

The breakdown of penalties accrued as at 31 December 2019 is as follows:

- SUNIR-1,150,800 thousand drams.
- Liaoning-Efacec Electrical Equipment Co. LTD-("Reconstruction of Shinuhair and Agarak-2 substations") - 718,129 thousand drams
- GAM ARAK INDUSTRIAL COMPANY ("Design, supply and installation of replacement of 110 kV Noyemberyan and Lalvar overhead transmission lines") - 104,945 thousand drams
- Xian Electric Engineering Co LTD China (rehabilitation of Ashnak and Vanadzor-1 substations) - 671,785 thousand drams

(c) Tax risks

Armenian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Often, differing interpretations exist among numerous taxation authorities. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Republic of Armenia substantially more significant than in other countries. As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

25. Events after reporting date

(a) COVID-19
On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, customers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

Receivable balances may be impacted by COVID-19 so as counterparties may be experiencing financial difficulty, in which case the Company may work with those counterparties to attempt to collect amounts due by restructuring the fixed price arrangement to mitigate expected losses. Trade receivables are measured for collectability through recognition of an allowance for credit losses. Provided the Company has adopted IFRS 9 *Financial Instruments*, according to which expected losses are recognized based on historical experience, current conditions, and reasonable and supportable forecasts, the impacts of COVID-19 may necessitate adjustments to these estimates, particularly the forecasts of expected losses.
However, one of the major counterparties is a government-owned company, and another one provides public interest services, which lowers the risk of financial difficulties.

Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material effect on the Company's results of future operations, financial position, and liquidity.

(b) Change in share capital
"According to Board decision issued 17 July 2020, as well as respective Governement Decision No 230-A issued 27 February 2020, the share capital will be increased by the amount of stock dividend of 1,240,547 thousand drams for operational year 2018. The number of shares was 648,363 at 31 December 2019 and no new shares were issued as at financial statements issue date. The increase will be secured by a raise in the share face value, from 14,822.90 drams at 31 December 2019 to 16,736.20 drams, resulting in the total amount of share capital 10,851,132.84 thousand drams

26. Accounting policies

26.1 Revenue recognition

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at the amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company concluded that it is the principal in its revenue arrangements, because it generally controls the goods or services before transferring them to the customer. 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.

Electricity transmission
Revenue from electricity transmission is recognised in statement of profit or loss based on an act of services rendered containing the physical volume of electricity transmitted according to the concluded contracts. The act is prepared based on a monthly summary report of electricity consumption (prepared in physical volumes). The tariffs for electricity transmission and sales on

regulated market are approved by the government agencies of the constituents of the Republic of Armenia in the area of the state energy tariff regulation.

The following tariffs for electricity transmission (without VAT) were effective throughout 2019 and 2018.

Effective date	AMD/kWh
01.02.2019 – 31.12.2019	1.2137
01.02.2018 – 31.01.2019	1.1169
01.01.2018 - 31.01.2018	1.8524

Electricity supply

The revenue form supply of electricity is recognized at the moment when the control is transferred to the customer. The control transfer is mainly carried out when the electricity is delivered to the customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the Company no longer has physical possession, usually will have a present right to payment.

The following tariffs for electricity supply (without VAT) were effective throughout 2019 and 2018.

Effective date	AMD/kWh
01.07.2019 – 31.12.2019	43.585
01.07.2018 – 30.06.2019	42.845
01.01.2018 - 30.06.2018	42.739

Services

Revenue from installation, repair and maintenance services and other sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

Performance obligations and timing of revenue recognition

Revenue of the Company derives from sale of electricity produced and electricity transmission services.

Control passes when electricity is transferred to customer. There is limited judgement needed in identifying the point control passes.

Revenue is recognized over time on monthly basis based on the actual electricity transferred and actual electricity sold as evidenced by the invoices issued by the Company.

Once physical transfer of the electricity to the agreed location has occurred, the Company no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods in question.

Determining the transaction price

Company's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices. The tariffs for electricity transmission are regulated by the Public Services Regulatory Commission of the Republic of Armenia.

Allocating amounts to performance obligations

For most contracts, there is a fixed unit price for each product sold. Therefore, there is no judgement involved in allocating the contract price to each unit ordered in such contracts (it is the total contract price divided by the number of units ordered).

Trade receivables
Accounts receivable represents the Company's right to for consideration that is unconditional (only the passage of time is required before payment of the consideration is due). Accounts receivable are recognized when the amount of consideration becomes payable by the customer.

26.2 Rental income

The Company earns income from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of the property. Rental income arising from operating leases is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Lease incentives that are paid or payable to the lessee are deducted from lease payments. Accordingly, tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Company is reasonably certain that the tenant will exercise that option.

26.3 Finance income and cost

Finance income comprises interest income on cash balances and bank deposits. For all financial instruments measured at amortised cost interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of discount on financial liabilities measured at amortised cost.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Interest income and cost are included in finance income and finance cost in the statement of profit or loss and other comprehensive income.

26.4 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. The Company begins capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date, which is the date when the Company first meets all of the following conditions: it incurs expenditures for the asset, it incurs borrowing costs, it undertakes activities that are necessary to prepare the asset for its intended use or sale.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset. The Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is calculated as the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Capitalization of borrowing costs is suspended during extended periods in which the Company suspends active development of a qualifying asset. Capitalization of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

26.5 Foreign currency

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is national currency of the Republic of Armenia, Armenian dram (AMD). Monetary assets and liabilities are translated into functional currency at the exchange rate published by the Central Bank of Armenia (CBA) at respective dates of statement of financial position. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBA are recognized in profit and loss on net basis. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2019, the principal rate of exchange used for translating foreign currency balances was AMD 479.70 against 1 US dollar (2018: AMD 483.75) and AMD 537.26 against 1 Euro (2018: AMD 553.65).

26.6 Property, plant and equipment

<u>(a) Recognition and measurement</u>
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 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 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.

<u>(b) Subsequent costs</u>
Expenditure to replace a component of an item of property 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.

<u>(c) Depreciation</u>
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	- 30-50 years
Transmission lines	- 30-50 years

Machinery and equipment	- 5-20 years
Vehicles	- 5-20 years
Fixture, fittings and other	- 5-10 years.

26.7 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.

Amortization is charged to profit or loss on a straight line basis over the estimated useful lives of the intangible assets, which are as follows:

Licenses and patents	- 5 years
Software	- 5-10 years

26.8 Impairment of non-financial assets

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.

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.

26.9 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 first in, first out (FIFO) method is used to determine the cost of all ordinarily interchangeable inventories.

26.10 Financial instruments

Initial measurement
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities
The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
(a) financial assets measured at fair value through profit or loss (FVTPL);
(b) financial assets measured at fair value through other comprehensive income (FVOCI);
c) financial assets measured at amortized cost.

The Company's principal financial assets are classified as "measured at amortized cost". The accounting policy for this class is presented below.

Financial assets measured at amortized cost
These assets are held to collect contractual cash flows. Contractual cash flows are payments of principal and interest. These assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue, and are subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

The Company's financial assets measured at amortized cost in the statement of financial position comprise trade and other receivables, loans to related parties as well as cash and cash equivalents. Cash and cash equivalents include on-demand deposits in banks.

Financial liabilities
The Company classifies its financial liabilities as "measured at amortized cost".
Loan and other borrowings are initially recognized at fair value less costs attributable to transaction.

Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest payable while the liability is outstanding.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR (effective interest rate) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.
Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

Trade payables and other short-term monetary liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Impairment of financial assets
Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using the assessment of the expected solvency loss for the entire period. During this process, the probability of non-payment of trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Financial assets being a debt instrument and not classified as measured at FVTPL are subject to impairment testing using the expected debt loss model. According to this model, a debt loss provision shall be recognized in the amount of expected credit loss (ECL) for 12 months after the reporting date. However, if the instrument's credit risk has significantly increased since its initial recognition, the provision should be recognized in the amount of ECL for the whole life of the instrument.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Presentation of allowance for ECL in the financial statement

Allowance for ECL for financial assets measured at amortised cost is deduced from the gross carrying amount of the assets and is presented on the net basis in the statement of financial position.

26.11 Share capital and reserves

Equity instruments issued by the Company are recorded at the proceeds received. Share capital represents the nominal value of shares that have been issued.

Share premium/ (discount) is recognized in equity, when a payment to shareholders against shares repurchased are below/ (above) face value of shares.
Retained earnings include all current and prior period retained profits.

All transactions with owners of the parent are recorded separately within equity. Dividends are recognized as a liability in the period in which they are declared.

26.12 Government 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.

Grants related to lands are recognized in profit or loss over the periods of depreciation of the buildings located on those lands.

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.

26.13 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.

26.14 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 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.

26.15 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;

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 recognizes 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 entity has no realistic alternative but to make the payments.

Annex A – IFRS 13 Fair Value measurement disclosures

The following table sets out the assets and liabilities at 31 December 2019 for which fair values are disclosed in the notes.

Item	Fair value AMD thousand	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Trade and other receivables	1,512,875	*Current* The carrying amount of short term (less than 12 months) trade receivables approximates their fair values. Long term receivables were discounted at 12%	Level 3	N/A
Trade and other payables	3,796,491	*Current* The carrying amount of short term (less than 12 months) trade payables approximate its fair values.	Level 3	N/A
Loans and borrowings	77,683,504	The carrying amount of the received loans approximates their fair value. The following effective discount rates have been used: 0.5-4.5% for USD denominated loans; 0.72-6.69% for EUR denominated loans; and 3.12% for SDR denominated loans.	Level 3	N/A