Electric Networks of Armenia CJSC

Financial Statements
for 2017

Contents

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Independent Auditors' Report

To the Shareholders of Electric Networks of Armenia CJSC

Opinion

We have audited the financial statements of Electric Networks of Armenia CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia cjsc

KPMG Armenia cjsc

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KPMG Armenia cjsc
5 March 2018

'000 AMD	Note	31 December 2017	31 December 2016
Assets			
Property and equipment	11	121,523,743	110,679,065
Intangible assets		635,931	611,673
Prepayments for non-current assets	13	213,470	215,909
Other non-current assets		3,800	3,862
Non-current assets		**122,376,944**	**111,510,509**
Inventories	12	7,349,129	1,999,698
Current tax assets		1,512,367	-
Trade and other receivables	14	25,620,806	29,259,943
Prepayments for non-current assets	13	8,030,129	9,733,146
Bank deposit		20,760	-
Cash and cash equivalents	15	1,852,297	1,342,069
Current assets		**44,385,488**	**42,334,856**
Total assets		**166,762,432**	**153,845,365**
Equity			
Share capital		18,654,221	18,654,221
Additional paid-in capital		39,946,077	43,289,400
Accumulated losses		(4,200,170)	(10,854,170)
Total equity	16	**54,400,128**	**51,089,451**
Liabilities			
Government grants	19	4,000,074	4,243,479
Loans and borrowings	18	57,905,388	32,127,062
Trade and other payables	20	54,186	54,798
Deferred tax liabilities	9	6,075,279	5,559,265
Non-current liabilities		**68,034,927**	**41,984,604**
Government grants	19	244,146	244,146
Loans and borrowings	18	20,724,953	31,457,591
Trade and other payables	20	23,358,278	26,072,335
Current tax liabillities		-	2,997,238
Current liabilities		**44,327,377**	**60,771,310**
Total liabilities		**112,362,304**	**102,755,914**
Total equity and liabilities		**166,762,432**	**153,845,365**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 41.

'000 AMD	Note	2017	2016
Revenue	5	189,999,471	192,742,570
Purchased power	6	(123,218,529)	(117,695,371)
Service fees for electricity transmission		(11,758,329)	(7,091,240)
Wages and salaries		(19,848,701)	(20,195,113)
Depreciation and amortisation		(7,651,047)	(6,734,441)
Inventory used		(2,052,581)	(2,019,702)
Repairs and maintenance		(1,409,851)	(1,279,341)
Impairment reversal	21	54,932	694,859
Other income		1,806,176	1,790,140
Other expenses	7	(7,135,206)	(6,872,693)
Results from operating activities		**18,786,335**	**33,339,668**
Finance income	8	136,912	90,934
Finance costs	8	(8,657,700)	(4,561,727)
Net finance costs		**(8,520,788)**	**(4,470,793)**
Profit before income tax		**10,265,547**	**28,868,875**
Income tax expense	9	(3,611,547)	(5,584,357)
Profit and total comprehensive income for the year		**6,654,000**	**23,284,518**

These financial statements were approved by management on 5 March 2018 and were signed on its behalf by:

Karen Harutyunyan
General Director

Nairi Adamyan
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 41.

'000 AMD	Share capital	Additional paid-in capital	Accumulated losses	Total equity
Balance at 1 January 2016	18,654,221	46,985,333	(34,138,688)	31,500,866
Total comprehensive income				
Profit for the year	-	-	23,284,518	23,284,518
Total comprehensive income for the year	-	-	**23,284,518**	**23,284,518**
Transactions with owners of the Company				
Contributions and distributions				
Reversal of additional paid-in capital for early repaid loan (note 16(c))	-	(3,695,933)	-	(3,695,933)
Total contributions and distributions	-	**(3,695,933)**	-	**(3,695,933)**
Total transactions with owners of the Company	-	**(3,695,933)**	-	**(3,695,933)**
Balance at 31 December 2016	**18,654,221**	**43,289,400**	**(10,854,170)**	**51,089,451**
Balance at 1 January 2017	18,654,221	43,289,400	(10,854,170)	51,089,451
Total comprehensive income				
Profit for the year	-	-	6,654,000	6,654,000
Total comprehensive income for the year	-	-	**6,654,000**	**6,654,000**
Transactions with owners of the Company				
Contributions and distributions				
Reversal of additional paid-in capital for early repaid loan (note 16(c))	-	(3,343,323)	-	(3,343,323)
Total contributions and distributions	-	**(3,343,323)**	-	**(3,343,323)**
Total transactions with owners of the Company	-	**(3,343,323)**	-	**(3,343,323)**
Balance at 31 December 2017	**18,654,221**	**39,946,077**	**(4,200,170)**	**54,400,128**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 41.

'000 AMD	Note	2017	2016
Cash flows from operating activities			
Profit for the year		6,654,000	23,284,518
Adjustments for:			
Depreciation and amortisation		7,651,047	6,734,441
Impairment (reversal)/losses		(54,932)	(694,859)
Loss on disposal of property and equipment		191,430	430,086
Write-down of inventories		(53,560)	-
Amortisation of government grants		(243,405)	(245,630)
Reversal of provision for litigations and claims		-	(279,523)
Accrual of vacation reserve		2,041,647	2,017,342
Net finance costs		8,520,788	4,470,793
Income tax expense		3,611,547	5,584,357
Changes in:			
Inventories		(918,002)	996,143
Trade and other receivables		3,287,166	2,926,292
Trade and other payables		(5,836,096)	(19,009,584)
Cash flow from operations before income taxes and interest paid		**24,851,630**	**26,214,376**
Income tax paid		(6,769,307)	(1,903,356)
Net cash flows from operating activities		**18,082,323**	**24,311,020**
Cash flows from investing activities			
Acquisition of property and equipment		(20,203,402)	(17,794,203)
Acquisition of intangible assets		(336,593)	(130,288)
Proceeds from sale of property and equipment		173,973	401,397
Net proceeds from placement of bank deposits		12,577	-
Interest received		120,737	44,944
Net cash flows used in investing activities		**(20,232,708)**	**(17,478,150)**
Cash flow from financing activities			
Proceeds from borrowings		173,079,194	126,997,352
Repayment of borrowings		(151,610,945)	(130,906,927)
Interest paid		(18,991,506)	(3,030,512)
Net cash flows used in financing activities		**2,476,743**	**(6,940,087)**
Net decrease in cash and cash equivalents		**326,358**	**(107,217)**
Cash and cash equivalents at 1 January		1,342,069	1,435,079
Effect of movements in exchange rates on cash and cash equivalents		183,870	14,207
Cash and cash equivalents at 31 December	15	**1,852,297**	**1,342,069**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 41.

1. Background

(a) Organisation and operations

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

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

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

At 31 December 2017 the Company is owned by Tashir Capital cjsc (70%) and Liormand Holdings Ltd. (30 %) (31 December 2016: wholly owned Liormand Holdings Ltd).

The Company is ultimately controlled by a single individual, Mr. Samvel Karapetyan. Related party transactions are disclosed in note 24.

(b) Armenian business environment

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

2. Basis of accounting

Statement of compliance

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

3. Functional and presentation currency

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

4. Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- 18 – loans and borrowings: distribution from additional paid-in capital;
- 21 (c) – allowances for trade receivables;
- 26 – classification of prepayments for non-current assets.

Measurement of fair values

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

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

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

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

Further information about the assumptions made in measuring fair values is included in note 21 – financial instruments.

5. Revenue

'000 AMD	2017	2016
Legal entities	113,627,126	120,821,108
Households	76,372,345	71,921,462
	189,999,471	**192,742,570**

6. Purchased power

'000 AMD	2017	2016
Electricity for distribution	80,333,831	80,237,342
Available capacity	42,884,698	37,458,029
	123,218,529	**117,695,371**

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

7. Other expenses

'000 AMD	2017	2016
Donations	1,925,728	1,881,187
Collection fees and bank charges	1,020,493	1,074,940
Other administrative fees	773,181	694,888
Taxes, other than on income	648,569	701,567
Rent	338,940	353,809
Other employee benefits	306,429	274,344
Loss on disposal of property and equipment	280,684	430,086
Professional services	212,266	191,929
Transportation expenses	198,572	67,605
Security	180,160	200,723
Communication	170,305	155,833
Advertising expenses	148,422	64,755
Fines and penalties	143,287	97,599
Representative expenses	104,336	74,235
Travel	84,874	87,550
Other	598,960	521,643
	7,135,206	**6,872,693**

8. Finance income and finance costs

'000 AMD	2017	2016
Interest income on bank accounts	136,912	90,934
Net foreign exchange gain	-	-
Finance income	**136,912**	**90,934**
Interest expense on financial liabilities measured at amortised cost	(4,741,793)	(4,462,967)
Net foreign exchange loss	(3,915,907)	(98,760)
Finance costs	**(8,657,700)**	**(4,561,727)**
Net finance costs recognised in profit or loss	**(8,520,788)**	**(4,470,793)**

9. Income tax

(a) Amounts recognised in profit or loss

The Company's applicable tax rate is the income tax rate of 20% (2016: 20%).

'000 AMD	2017	2016
Current tax expense		
Current tax	2,259,702	5,133,300
Over-provided in prior years	-	(1,579,724)
Deferred tax expense		
Origination and reversal of temporary differences	1,351,845	2,030,781
Total tax expense	**3,611,547**	**5,584,357**

(b) Amounts recognised directly in equity

	2017			2016		
'000 AMD	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Reversal of additional paid-in capital for early reapid loan	(4,179,154)	(835,831)	(3,343,323)	(4,619,916)	(923,983)	(3,695,933)
	(4,179,154)	**(835,831)**	**(3,343,323)**	**(4,619,916)**	**(923,983)**	**(3,695,933)**

Reconciliation of effective tax rate:

	2017		2016	
	'000 AMD	%	'000 AMD	%
Profit before income tax	10,265,547	100	28,868,875	100
Income tax at applicable tax rate	2,053,109	20	5,773,775	20
Non-deductible expenses	1,558,438	15	1,390,306	5
Over-provided in prior years	-	-	(1,579,724)	(5)
	3,611,547	**35**	**5,584,357**	**20**

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 AMD	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Property and equipment	-	-	7,354,267	6,243,928	7,354,267	6,243,928
Intangible assets	(115,815)	(95,336)	-	-	(115,815)	(95,336)
Inventories	(188,080)	(197,836)	-	-	(188,080)	(197,836)
Trade and other receivables	(437,503)	(221,051)	-	-	(437,503)	(221,051)
Other assets	(16,668)	(16,649)	-	-	(16,668)	(16,649)
Trade and other payables	(394,640)	(408,422)	-	-	(394,640)	(408,422)
Loans and borrowings	(126,282)	-	-	254,631	(126,282)	254,631
Net tax (assets)/liabilities	**(1,278,988)**	**(939,294)**	**7,354,267**	**6,498,559**	**6,075,279**	**5,559,265**

(d) Movement in deferred tax balances

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

'000 AMD	1 January 2016	Recognised in profit or loss	Recognised directly in equity	31 December 2016
Property and equipment	4,465,034	1,778,894	-	6,243,928
Intangible assets	(77,206)	(18,130)	-	(95,336)
Inventories	(212,546)	14,710	-	(197,836)
Trade and other receivables	(943,656)	722,605	-	(221,051)
Other assets	(16,697)	48	-	(16,649)
Trade and other payables	(308,888)	(99,534)	-	(408,422)
Loans and borrowings	1,546,426	(367,812)	(923,983)	254,631
	4,452,467	**2,030,781**	**(923,983)**	**5,559,265**

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

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

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

'000 AMD	Note	2017	2016
Profit and total comprehensive income for the year		6,654,000	23,284,518
Income tax expense	9	3,611,547	5,584,357
Profit before tax		**10,265,547**	**28,868,875**
Adjustments for:			
- Net finance costs	8	8,520,788	4,470,793
- Depreciation	11	7,338,456	6,465,190
- Amortisation		312,591	269,251
- (Reversal of) amortisation of government grants		(243,405)	(245,630)
- (Reversal of) impairment losses on trade and other receivables		(54,932)	(694,859)
- Donations	7	1,925,728	1,881,187
- Other benefits paid		207,409	32,230
- Other non-operating losses		51,431	10,943
Adjusted EBITDA		**28,323,613**	**41,057,980**

The Company's adjusted EBITDA for the year ended 31 December 2017 is lower by AMD 12,312 thousand compared to the comparative period. This is mainly explained by the following factors:

- Decrease of revenue by AMD 2,743 thousand, because of increase of electricity sold by 6.3% (by buying more electricity and reducing the loss) and reduction of weighted average tariffs of electricity sold by 7.3%.

- Increase of cost of purchased power by AMD 4,533 thousand, because of increase of the quantity of purchased electricity 5.0%. The changes in tariffs for purchased electricity during 2017 compared to 2016 did not have significant impact on the weighted average purchase price.

- Increase of service fee for electricity transmission by AMD 4,667 thousand, mainly because of increase of weighted average tariffs for electricity transmission by 70.0%.

The above tariffs are set by Public Services Regulatory Commission ("PSRC") of the Republic of Armenia.

Amongst other factors affecting the change in tariffs/marginality was existence in 2015 of an overdue debt to electricity producers accumulated and related to the prior years. Thus, 2016 tariffs were set to allow the Company to pay overdue debt to electricity producers. The approximate amount of that component (additional marginality) included in 2016 tariffs is AMD 13,667.

11. Property and equipment

'000 AMD	Land, buildings and structures	Transfer devices	Equipment	Transport vehicles	Construction in progress	Computer equipment, fixtures & fittings	Total
Cost							
Balance at 1 January 2016	35,916,502	191,918,545	163,616,840	4,510,599	8,613,401	9,608,016	414,183,903
Additions	210,782	18,326	28,985	1,804,513	9,562,237	282,868	11,907,711
Transfers	620,296	5,144,620	2,034,411	77,882	(8,384,104)	506,895	-
Disposals	(4,971)	(372,349)	(400,949)	(192,049)	(472,668)	(317,354)	(1,760,340)
Balance at 31 December 2016	**36,742,609**	**196,709,142**	**165,279,287**	**6,200,945**	**9,318,866**	**10,080,425**	**424,331,274**
Balance at 1 January 2017	36,742,609	196,709,142	165,279,287	6,200,945	9,318,866	10,080,425	424,331,274
Additions	141,107	18,001	111,983	678,372	17,337,136	261,870	18,548,469
Transfers	1,290,381	5,659,044	10,745,388	47,592	(22,379,116)	4,636,711	-
Disposals	(456,733)	(255,778)	(1,561,597)	(118,157)	(474,198)	(82,715)	(2,949,178)
Balance at 31 December 2017	**37,717,364**	**202,130,409**	**174,575,061**	**6,808,752**	**3,802,688**	**14,896,291**	**439,930,565**
Depreciation and impairment losses							
Balance at 1 January 2016	(23,215,006)	(154,953,642)	(119,416,461)	(3,334,454)	(508,113)	(6,698,980)	(308,126,656)
Depreciation for the year	(476,706)	(2,617,637)	(2,632,150)	(398,954)	-	(339,743)	(6,465,190)
Disposals	-	236,402	234,958	170,459	-	297,818	939,637
Balance at 31 December 2016	**(23,691,712)**	**(157,334,877)**	**(121,813,653)**	**(3,562,949)**	**(508,113)**	**(6,740,905)**	**(313,652,209)**
Balance at 1 January 2017	(23,691,712)	(157,334,877)	(121,813,653)	(3,562,949)	(508,113)	(6,740,905)	(313,652,209)
Transfers	68,932	(177,258)	42,297	(9,791)	99,229	(23,409)	-
Depreciation for the year	(585,607)	(2,996,992)	(2,788,535)	(516,962)	-	(450,360)	(7,338,456)
Disposals	286,920	258,695	1,462,066	126,867	367,482	81,813	2,583,843
Balance at 31 December 2017	**(23,921,467)**	**(160,250,432)**	**(123,097,825)**	**(3,962,835)**	**(41,402)**	**(7,132,861)**	**(318,406,822)**
Carrying value							
At 1 January 2016	12,701,496	36,964,903	44,200,379	1,176,145	8,105,288	2,909,036	106,057,247
At 31 December 2016	13,050,897	39,374,265	43,465,634	2,637,996	8,810,753	3,339,520	110,679,065
At 31 December 2017	**13,795,897**	**41,879,977**	**51,477,236**	**2,845,917**	**3,761,286**	**7,763,430**	**121,523,743**

(a) Security

At 31 December 2017 properties with a carrying amount of AMD 10,908,665 thousand (2016: AMD 11,578,951 thousand) are pledged as security to secure loans from Government of Armenia (see note 18).

12. Inventories

'000 AMD	2017	2016
Operating supplies	6,728,327	1,430,252
Construction materials and spare parts	355,625	375,032
Other	265,177	194,414
	7,349,129	**1,999,698**

13. Prepayments for non-current assets

'000 AMD	2017	2016
Non-current		
Other	213,470	215,909
	213,470	**215,909**
Current		
Prepayment for design services and construction works	7,466,739	8,860,747
Other	563,390	872,399
	8,030,129	**9,733,146**

Prepayment for services received represents prepayment to a related party for the design, construction and implementation of the automated electricity control and metering systems.

14. Trade and other receivables

'000 AMD	2017	2016
Legal entities	15,511,376	19,458,582
Households	11,248,348	12,190,112
Other receivables	1,565,911	1,084,576
Allowance for impairment of trade receivables	(4,172,395)	(4,232,938)
Allowance for impairment of other receivables	(399,218)	(380,910)
Trade and other receivables included in loans and receivables category	**23,754,022**	**28,119,422**
Other taxes receivable	220,099	16,954
VAT receivable	407,602	550,009
Prepayments given	1,239,083	573,558
Total trade and other receivables	**25,620,806**	**29,259,943**

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 21.

15. Cash and cash equivalents

'000 AMD	2017	2016
Cash in transit	1,157,520	1,161,407
Bank balances	694,777	180,662
Cash and cash equivalents in the statement of financial position and statement of cash flows	**1,852,297**	**1,342,069**

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 21.

16. Capital and reserves

(a) Share capital

The authorised, issued and fully paid share capital as at 31 December 2017 comprises of 75,700 ordinary shares at par value of AMD 246,423 (31 December 2016: 75,700 shares at par value of AMD 246,423).

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

At 31 December 2017 the Parent pledged its 100% shareholding in the Company to secure a bank loan (2016: 20%) (see note 18).

(b) Dividends

In accordance with Armenian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards. As at 31 December 2017 the Company did not have distributable reserves (2016: nil).

(c) Additional paid-in capital

The additional paid-in capital relates to the following:

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

17. Capital management

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

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

'000 AMD	2017	2016
Total liabilities	112,362,304	102,755,914
Less: cash and cash equivalents	1,852,297	1,342,069
Net debt	**110,510,007**	**101,413,845**
Total equity	54,400,128	51,089,451
Net debt to equity ratio at 31 December	**2.03**	**1.99**

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

The Company is not subject to externally imposed capital requirements.

18. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 21.

'000 AMD	2017	2016
Non-current		
Secued loans from international financial institutions	30,932,834	-
Secured bank loans	21,136,296	8,710,921
Secured loans from Government of Armenia	5,836,258	5,977,392
Unsecured borrowings from former shareholder	-	17,438,749
	57,905,388	**32,127,062**
Current		
Secured bank loans	14,938,918	4,071,602
Secured loans from international financial institutions	2,603,253	-
Unsecured bank loans	2,221,470	20,293,064
Secured loans from Government of Armenia	956,800	935,544
Unsecured borrowings from other companies	4,512	4,513
Unsecured borrowings from former shareholder	-	6,152,868
	20,724,953	**31,457,591**
Total loans and borrowings	**78,630,341**	**63,584,653**

During 2017 and 2016, as part of change in shareholders, the Company has early repaid the borrowing from former shareholder after early repaying the loan from international financial institution in 2016. The change in the carrying amount of the borrowing from former shareholder was recognised as deduction from additional paid-in capital (see note 16 (c)).

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2017		2016	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank loans	USD	4.5%	2018	1,457,202	1,457,202	-	-
Unsecured bank loans	EUR	4.3%	2018	754,611	754,611	-	-
Unsecured bank loans	EUR	4.3%	2018	2,392	2,392	-	-
Unsecured bank loans	USD	4.5%	2018	1,940	1,940	-	-
Unsecured bank loans	EUR	4.0%	2018	1,748	1,748	-	-
Unsecured bank loans	AMD	10.0%	2018	1,682	1,682	-	-
Unsecured bank loans	EUR	4.0%	2018	954	954	-	-
Unsecured bank loans	USD	4.5%	2018	941	941	-	-
Unsecured bank loans	USD	5.0%	2017	-	-	6,730,954	6,730,954
Unsecured bank loans	USD	7.0%	2017	-	-	2,432,229	2,432,229
Unsecured bank loans	USD	5.0%	2017	-	-	1,965,582	1,965,582
Unsecured bank loans	AMD	10.0%	2017	-	-	1,502,466	1,502,466
Unsecured bank loans	USD	4.7%	2017-2019	-	-	3,597	3,597
Unsecured bank loans	USD	6.5%	2017	-	-	253	253
Unsecured bank loans	USD	8.0%	On demand	-	-	7,657,983	7,657,983
Secured bank loans	EUR	Euribor+3%	2018-2020	27,356,877	27,356,877	-	-
Secured bank loans	USD	Libor +3%	2018-2019	8,718,337	8,718,337	11,619,718	11,619,718
Secured bank loans	AMD	14.0%	2017	-	-	1,162,805	1,162,805
Unsecured borrowings from former shareholder	EUR	10.0%	2017-2023	-	-	24,905,584	20,346,345
Unsecured borrowings from former shareholder	USD	10.0%	On demand	-	-	3,222,069	3,222,069
Unsecured borrowings from former shareholder	USD	10.0%	2018	-	-	23,203	23,203
Unsecured borrowings from other companies	AMD	1.0%	On demand	4,512	4,512	4,513	4,513
Secured loans from Government of Armenia	JPY	1.8%	2018-2029	9,139,736	6,435,450	9,569,376	6,564,109
Secured loans from Government of Armenia	JPY	1.8%	2018-2039	665,343	357,608	670,701	348,827
Secured loans from international financial institutions	USD	Libor +3.75%	2018-2024	17,029,362	16,768,093	-	-
Secured loans from international financial institutions	USD	Libor +3.75%	2018-2024	17,029,357	16,767,994	-	-
Total loans and borrowings				**82,164,994**	**78,630,341**	**71,471,033**	**63,584,653**

Secured bank loans are collateralized by 100% of the Company's shares (see note 16).

Secured loans from Government of Armenia are collateralized by property and equipment AMD 10,908,665 thousand (2016: AMD 11,578,951 thousand) (see note 11(a)).

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

		Liabilities		Equity		
'000 AMD	**Note**	**Bank overdrafts used for cash management purposes**	**Other loans and borrowings**	**Share capital/ Additional paid-in capital**	**Retained earnings**	**Total**
Balance at 1 January 2017		**10,790,219**	**52,794,434**	**61,943,621**	**(10,854,170)**	**114,674,104**
Changes from financing cash flows						
Transaction costs related to loans and borrowings		-	(594,307)	-	-	(594,307)
Reversal of additional paid in capital for early repaid loan	16 (c)	-	4,179,154	(3,343,323)	-	835,831
Proceeds from borrowings		-	69,591,300	-	-	69,591,300
Repayment of borrowings		-	(39,125,158)	-	-	(39,125,158)
Total changes from financing cash flows		**-**	**34,050,989**	**(3,343,323)**	**-**	**30,707,666**
The effect of changes in foreign exchange rates		**494,228**	**3,748,077**	**-**	**-**	**4,242,305**
Other changes						
Liability-related						
Proceeds from bank overdraft		103,487,894	-	-	-	103,487,894
Repayment of bank overdraft		(112,485,787)	-	-	-	(112,485,787)
Interest expense	8	1,022,657	3,719,136	-	-	4,741,793
Interest paid		(1,087,742)	(17,903,764)	-	-	(18,991,506)
Total liability-related other changes		**(9,062,978)**	**(14,184,628)**	**-**	**-**	**(23,247,606)**
Total equity-related other changes		**-**	**-**	**-**	**6,654,000**	**6,654,000**
Balance at 31 December 2017		**2,221,469**	**76,408,872**	**58,600,298**	**(4,200,170)**	**133,030,469**

19. Government grants

'000 AMD	2017	2016
Non-current		
Benefit from low interest loan from Government of Armenia	3,927,262	4,163,848
Other	72,812	79,631
	4,000,074	**4,243,479**
Current		
Benefit from low interest loan from Government of Armenia	237,327	237,327
Other	6,819	6,819
	244,146	**244,146**
Total government grants	**4,244,220**	**4,487,625**

20. Trade and other payables

'000 AMD	2017	2016
Non-current		
Payables for purchased property and equipment	54,186	54,798
	54,186	**54,798**
Current		
Trade payables	16,006,670	19,024,367
Payables for purchased property and equipment	2,527,048	1,650,753
Prepayments received from customers	1,464,240	1,984,172
Salaries and wages	1,364,873	1,267,040
Vacation reserve	1,188,427	1,189,779
Other taxes payable	193,872	822,147
Other	613,148	134,077
	23,358,278	**26,072,335**
Total trade and other payables	**23,412,464**	**26,127,133**

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

21. Fair values and risk management

(a) Fair values of financial instruments

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

(b) Measurement of fair values

Financial instruments not measured at fair value

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

* Other financial liabilities include loans and borrowings and trade payables.

(c) Financial risk management

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

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

(i) Risk management framework

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

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

(ii) Credit risk

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying amount	
'000 AMD	**2017**	**2016**
Trade and other receivables	23,754,022	28,119,422
Bank balances	1,852,297	1,342,069
	25,606,319	**29,461,491**

Trade receivables

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

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

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main component of this allowance is the collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
'000 AMD	**2017**	**2016**
Households	10,381,856	11,193,109
Legal entities	12,205,473	16,222,647
	22,587,329	**27,415,756**

The aging of trade receivables at the reporting date was:

'000 AMD	**Gross 2017**	**Impairment 2017**	**Gross 2016**	**Impairment 2016**
Not past due	20,545,327	(71,411)	22,229,685	(88,404)
Past due 0 - 60 days	957,667	(57,109)	1,426,193	(186,955)
Past due 61 - 120 days	336,456	(43,935)	1,941,154	(65,875)
Past due 121 days and more	4,920,274	(3,999,940)	6,051,662	(3,891,704)
	26,759,724	**(4,172,395)**	**31,648,694**	**(4,232,938)**

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

'000 AMD	**2017**	**2016**
Balance at beginning of the year	4,232,938	5,931,073
Impairment loss recognised	164,420	246,698
Amounts write-off against trade receivables	-	(1,003,276)
Decrease due to reversal	(224,963)	(941,557)
Balance at end of the year	**4,172,395**	**4,232,938**

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. The Company writes off debts which are overdue more than three year.

The Company estimated collective impairments for trade receivables based on historical loss experience on each type of customer. The significant assumption used by management in determining the impairment losses for trade receivables is that the payment patterns are constant and can be estimated based on the historic loss migration pattern for the past three years.

To the extent that the net present value of the estimated cash flows based on historic rates differs by three percent, the impairment allowance on trade receivables as at 31 December 2017 would be AMD 677,620 thousand lower/higher (2016: AMD 822,473 thousand lower/higher).

Cash equivalents

The Company held cash in transit and bank balances of AMD 1,852,297 thousand at 31 December 2017 (2016: AMD 1,342,069 thousand), which represents its maximum credit exposure on these assets. The cash in transit and bank balances are held with reputable Armenian banks and payment organisations and the Company does not expect them to fail to meet their obligations.

(iii) Liquidity risk

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

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

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

- Unsecured credit line facility of AMD 5,000,000 thousand. The unused part of the credit line as at 31 December 2017 amounted to AMD 5,000,000 thousand.

- Unsecured credit line facility of USD 18,500 thousand. The unused part of the credit line as at 31 December 2017 amounted to USD 15,500 thousand.

- Unsecured credit line facilities of EUR 20,500 thousand. The unused part of the credit lines as at 31 December 2017 amounted to EUR 19,200 thousand.

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

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

2016 **'000 AMD**	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Secured bank loans	12,782,523	13,505,696	-	1,169,378	3,340,472	6,051,950	2,943,896	-
Unsecured bank loans	20,293,064	20,473,400	7,657,983	7,906,094	4,909,323	-	-	-
Unsecured borrowings from shareholder	23,591,617	37,243,604	3,222,069	-	3,073,200	3,073,200	3,073,200	24,801,935
Unsecured borrowings from other companies	4,513	4,513	4,513	-	-	-	-	-
Secured loans from Government of Armenia	6,912,936	11,486,530	-	485,673	480,875	952,866	2,776,837	6,790,279
Trade and other payables	22,131,035	22,397,287	1,628,201	20,253,319	144,448	-	78,018	293,301
	85,715,688	**105,111,030**	**12,512,766**	**29,814,464**	**11,948,318**	**10,078,016**	**8,871,951**	**31,885,515**

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

(iv) Market risk

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

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

Currency risk

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

Exposure to currency risk

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

'000 AMD	USD-denominated 2017	EUR-denominated 2017	JPY-denominated 2017	USD-denominated 2016	EUR-denominated 2016	JPY-denominated 2016
Loans and borrowings	(43,714,502)	(28,116,582)	(6,793,062)	(33,655,588)	(20,346,345)	(6,912,936)
Gross exposure	**(43,714,502)**	**(28,116,582)**	**(6,793,062)**	**(33,655,588)**	**(20,346,345)**	**(6,912,936)**

The following significant exchange rates applied during the year:

in AMD	Average rate		Reporting date spot rate	
	2017	**2016**	**2017**	**2016**
USD 1	482.63	480.48	484.10	483.94
EUR 1	546.15	531.90	580.10	512.20
JPY 1	4.31	4.44	4.30	4.14

Sensitivity analysis

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

'000 AMD	Strengthening Profit or loss	Weakening Profit or loss
31 December 2017		
AMD 10% movement against USD	4,371,450	(4,371,450)
AMD 10% movement against EUR	2,811,658	(2,811,658)
AMD 10% movement against JPY	679,306	(679,306)
31 December 2016		
AMD 10% movement against USD	3,365,559	(3,365,559)
AMD 10% movement against EUR	2,034,635	(2,034,635)
AMD 10% movement against JPY	691,294	(691,294)

(v) *Interest rate risk*

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

Exposure to interest rate risk

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

	Carrying amount	
'000 AMD	**2017**	**2016**
Fixed rate instruments		
Financial liabilities	9,019,040	51,964,935
	9,019,040	**51,964,935**
Variable rate instruments		
Financial liabilities	69,611,301	11,619,718
	69,611,301	**11,619,718**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100 bp increase	**100 bp decrease**
'000 AMD		
2017		
Variable rate instruments	(556,890)	556,890
Cash flow sensitivity (net)	**(556,890)**	**556,890**
2016		
Variable rate instruments	(92,958)	92,958
Cash flow sensitivity (net)	**(92,958)**	**92,958**

22. Capital commitments

The Company enteres into several contracts related to connecting new subscribers to the electricity network. The commitments related to these contracts at 31 December 2017 amounted to AMD 3,603,583 thousand (31 December 2016: AMD 3,204,576 thousand).

23. Contingencies

(a) Insurance

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

(b) Litigations

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

(c) Taxation contingencies

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

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

24. Related party disclosures

(a) Parent and ultimate controlling party

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

The ultimate controlling party is Mr. Samvel Karapetyan.

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

(b) Transactions with key management personnel

(i) Key management remuneration

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

'000 AMD	2017	2016
Salaries and bonuses	**924,766**	**658,285**

(c) Other related party transactions

'000 AMD	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2017	2016	2017	2016
Sales of power:				
Entities under common control and related to shareholders	500,121	2,839,052	49,174	48,035
Sales of goods:				
Entities under common control	106,989	401,020	496,428	401,020
Purchase of power:				
Entities under common control and related to shareholders	(15,281,429)	(35,551,974)	(1,704,745)	(3,355,116)
Prepayment for goods and services:				
Entities under common control and related to shareholders	(13,916,142)	(12,969,495)	8,030,129	9,733,146
Purchase of goods and services:				
Entities under common control and related to shareholders	(8,305,587)	(9,652,576)	(2,357,761)	(424,886)

25. Basis of measurement

The financial statements are prepared on the historical cost basis.

26. Change in accounting policy

In preparation of these financial statements, the management has changed accounting policy in relation to classification of prepayments for non-current assets. Prepayments for non-current assets made to related parties have been reclassified from non-current assets to current assets. The management believes that such presentation better reflects Company's liquidity position considering the nature of the relationships with the counterparties as prepayments could be used in the management of the liquidity if such need arises.

The comparative information has been reclassified in order to reflect change in accounting policy.

(a) Statement of financial position

'000 AMD	Impact of change in accounting policy		
	As previously reported	**Reclassification**	**Reclassified balance**
31 December 2016			
Non-current assets			
Prepayments for non-current assets	9,949,055	(9,733,146)	215,909
Current assets			
Prepayments	-	9,733,146	9,733,146

27. Significant accounting policies

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

Certain comparative amounts have been adjusted as a result of accounting policy change (see note 26).

(a) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(b) Government grants

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

(c) Finance income and costs

The Company's finance income and finance costs include:

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

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

(d) Foreign currency transactions

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

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

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

(e) Short-term employee benefits

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

(f) Income tax

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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

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

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

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

(g) Inventories

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

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

(h) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

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

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

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

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

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

(i) Financial instruments

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Companyp currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

The Company classifies non-derivative financial assets into the loans and receivables category.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and current bank accounts.

(ii) Non-derivative financial liabilities – measurement

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(j) Share capital

Ordinary shares

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

(k) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults, observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

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

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

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

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

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

(l) Provisions

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

28. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

The following standards are expected to have an impact on the Company's financial statements in the period of initial application.

(a) IFRS 9 *Financial Instruments*

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

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables.

(ii) Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The Company has estimated that application of IFRS 9's impairment requirements at 1 January 2018 will not results to recognition of additional material impairment losses.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

(v) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will generally be recognised in retained earnings and reserves as at 1 January 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(b) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

(i) Rendering of services

The Comany is involved in regulated distribution and sale of electric energy. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognised using the stage-of-completion method.

Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Company sells the services in separate transactions.

Based on the Company's assessment, the fair value and the stand-alone selling prices of the services are broadly similar. Therefore, the Company does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these services.

(ii) Transition

The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented.

(c) IFRS 16 *Leases*

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

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

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019 and the Company's latest assessment of whether it will exercise any lease renewal options.

So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of office space.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

(i) Transition

As a lessee, the Company can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

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

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

The Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.