Veolia Djur cjsc

Financial Statements for 2018

Contents

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Independent Auditors' Report

To the Board of Directors of Veolia Djur cjsc

Opinion

We have audited the financial statements of Veolia Djur cjsc (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of 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
Engagement Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC

KPMG Armenia LLC
23 July 2019

'000 AMD	Note	2018	2017*
Revenue	6	21,584,519	19,403,375
Cost of sales	7	(14,654,675)	(13,665,129)
Gross profit		**6,929,844**	**5,738,246**
Other income		205,986	185,060
Distribution expenses	8	(2,895,823)	(2,664,265)
Administrative expenses	9	(1,965,411)	(1,703,667)
Impairment loss on trade receivables		(877,379)	(507,042)
Other expenses		(216,563)	(255,952)
Results from operating activities		**1,180,654**	**792,380**
Finance income	10	113,292	81,878
Finance costs	10	(4,971,953)	(4,483,727)
Net finance costs		**(4,858,661)**	**(4,401,849)**
Loss and total comprehensive loss for the year		**(3,678,007)**	**(3,609,469)**

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

These financial statements were approved by management on 23 July 2019 and were signed on its behalf by:

Gor Grigoryan
Acting General Director

Arman Mnacakanyan
Finance Director

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 51.

'000 AMD	Note	31 December 2018	31 December 2017*
Assets			
Property and equipment	12	2,709,670	2,991,439
Intangible assets	13	30,727,501	29,489,461
Other non-current assets		304	2,668
Non-current assets		**33,437,475**	**32,483,568**
Inventories	14	2,766,762	2,871,512
Trade and other receivables	15	4,187,546	3,259,311
Cash and cash equivalents	16	2,090,427	2,991,666
Current assets		**9,044,735**	**9,122,489**
Total assets		**42,482,210**	**41,606,057**
Equity			
Share capital		2,500,000	2,500,000
Additional paid-in capital		174,175	174,175
Accumulated losses		(7,296,869)	(3,618,862)
Total equity	17	**(4,622,694)**	**(944,687)**
Liabilities			
Liabilities under Concession Agreement	19; 24(a)	34,508,395	32,820,806
Provision for Support Asset return liability	20; 24(d)	2,114,060	1,388,441
Deferred tax liabilities	11	43,544	43,544
Non-current liabilities		**36,665,999**	**34,252,791**
Liabilities under Concession Agreement	19; 24(a)	2,937,000	2,121,000
Loans and borrowings	21	5,359,000	4,616,968
Trade and other payables	22	2,142,905	1,559,985
Current liabilities		**10,438,905**	**8,297,953**
Total liabilities		**47,104,904**	**42,550,744**
Total equity and liabilities		**42,482,210**	**41,606,057**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 51.

'000 AMD	Share capital	Additional paid-in capital	Accumulated losses	Total
Balance at 1 January 2017 (unaudited)	1,500,000	-	(9,393)	1,490,607
Comprehensive loss				
Loss for the year	-	-	(3,609,469)	(3,609,469)
Total comprehensive loss for the year	**-**	**-**	**(3,609,469)**	**(3,609,469)**
Transactions with owners of the Company				
Contributions and distributions				
Issue of ordinary shares	1,000,000	-	-	1,000,000
Free of charge assets received from a related party	-	174,175	-	174,175
Total contribution and distributions	**1,000,000**	**174,175**	**-**	**1,174,175**
Total transactions with owners of the Company	**1,000,000**	**174,175**	**-**	**1,174,175**
Balance at 31 December 2017	**2,500,000**	**174,175**	**(3,618,862)**	**(944,687)**
Balance at 1 January 2018*	2,500,000	174,175	(3,618,862)	(944,687)
Comprehensive loss				
Loss for the year	-	-	(3,678,007)	(3,678,007)
Total comprehensive loss for the year	**-**	**-**	**(3,678,007)**	**(3,678,007)**
Balance at 31 December 2018	**2,500,000**	**174,175**	**(7,296,869)**	**(4,622,694)**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The statement of 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 51.

'000 AMD	Note	2018	2017*
Cash flows from operating activities			
Loss for the year		(3,678,007)	(3,609,469)
Adjustments for:			
Depreciation and amortisation	7,8,9	2,964,047	2,534,525
Impairment loss on trade receivables	23(c)(ii)	877,379	507,042
Net finance costs	10	4,858,661	4,401,849
Non-cash revenue from construction or upgrade services	6, 24(c)	(3,081,769)	(2,263,164)
		1,940,311	**1,570,783**
Changes in:			
Inventories		189,725	(671,477)
Trade and other receivables		(1,755,222)	(3,748,984)
Trade and other payables		586,523	1,549,765
Cash flows from operations before income taxes and interest paid		**961,337**	**(1,299,913)**
Interest paid	21(b)	(94,347)	(25,867)
Payment for liabilities under Concession Agreement	19	(2,121,000)	(1,713,000)
Net cash used in operating activities		**(1,254,010)**	**(3,038,780)**
Cash flows from investing activities			
Acquisition of property and equipment		(470,769)	(992,904)
Acquisition of intangible assets		(13,402)	(91,103)
Interest received		105,442	81,878
Net cash used in investing activities		**(378,729)**	**(1,002,129)**
Cash flows from financing activities			
Proceeds from issue of share capital	21(b)	-	1,000,000
Proceeds from loans and borrowings	21(b)	724,223	4,598,110
Net cash flows from financing activities		**724,223**	**5,598,110**
Net (decrease)/increase in cash and cash equivalents		**(908,516)**	**1,557,201**
Cash and cash equivalents at 1 January		2,991,666	1,432,682
Effect of movements in exchange rates on cash and cash equivalents		7,277	1,783
Cash and cash equivalents at 31 December	16	**2,090,427**	**2,991,666**

The Company's non-cash investing activities are disclosed in Note 24(c).

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

1. Reporting entity

(a) Organisation and operations

Veolia Djur cjsc (the "Company") was registered on 16 November 2016 as an Armenian closed joint stock company as defined in the Civil Code of the Republic of Armenia.

The Company's registered office is 66a Abovyan Street, Yerevan 0025, Republic of Armenia.

The Company's principal activities are the supply of water and the provision of wastewater services in Armenia, as well as, developing and improving the performance of the country's water distribution network. The Company started its operations on 1 January 2017 when a 15-year agreement (the "Concession Agreement") between the Company, Veolia Eau - Compagnie Generale des Eaux, France ("CGE") and the Government of the Republic of Armenia, represented by the Water Committee of the RA Ministry of Energy Infrastructures and Natural Resources (the "Grantor"), signed on 21 November 2016, came into effect. Under the Concession Agreement the Company received from the Grantor water distribution and wastewater removal facilities (the "Infrastructure") and equipment and materials (the "Support Assets"). The details of the Concession Agreement are described in Notes 19, 20 and 24.

The tariffs for water supply and wastewater services are regulated by the Republic of Armenia Public Services Regulatory Commission based on the Concession Agreement.

The Company is wholly owned by CGE. The Company's ultimate parent company and the ultimate controlling party is Veolia Environment SA. Related party transactions are disclosed in Note 26.

(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 preparation

(a) Statement of compliance

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

This is the first set of the Company's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 5.

(b) Going concern

As at 31 December 2018 the Company's net assets were negative and amounted AMD 4,622,694 thousand (31 December 2017: AMD 944,687 thousand, negative), and the Company incurred losses for 2018 of AMD 3,678,007 thousand (2017: AMD 3,609,469 thousand).

The ultimate parent company of Veolia Djur cjsc confirmed that will provide for the foreseeable future with such financial and other support as may be required to permit the Company to continue in operational existence and, therefore, to enable it realize its assets and discharge its liabilities in the normal course of business. Further, the ultimate parent company confirmed that will provide the financial support to Veolia Djur cjsc that may be necessary to meet its financial obligations with regard to the borrowing from the related party in total outstanding amount of AMD 5,359,000 thousand as at 31 December 2018.

Considering the above facts, management believes that there are no significant uncertainties regarding the ability of the Company to continue as a going concern.

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 assumptions and estimation uncertainties (excluding measurement of fair values) that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 24(a) - measurement of the liabilities under Concession Agreement;
- Note 24(d) – provision for Support Asset return liability;
- Note 23 (c)(ii) - allowance for trade receivables.

Measurement of fair values

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

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

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

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

Further information about the assumptions made in measuring fair values is included in Note 23 – financial instruments.

5. Changes in significant accounting policies

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

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables.

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

A. IFRS 15 *Revenue from Contracts with Customers*

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

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

B. IFRS 9 *Financial Instruments*

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

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements,* which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in finance costs. Consequently, the Company reclassified impairment losses amounting to AMD 507,042 thousand, recognised under IAS 39, from 'finance costs' to 'impairment loss on trade receivables' in the statement of profit or loss and OCI for the year ended 31 December 2017.

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

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

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

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

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

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

For an explanation of how the Company classifies and measures financial instruments, treats modifications and accounts for related gains and loss under IFRS 9, see Note 28(i).

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

'000 AMD	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Trade and other receivables	Loans and receivables	Amortized cost	3,067,144	3,067,144
Cash and cash equivalents	Loans and receivables	Amortized cost	2,991,666	2,991,666
Total financial assets			**6,058,810**	**6,058,810**

'000 AMD	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial liabilities				
Loans and borrowings	Other financial liabilities	Other financial liabilities	4,616,968	4,616,968
Liabilities unde Concession Agreement	Other financial liabilities	Other financial liabilities	34,941,806	34,941,806
Trade and other payables	Other financial liabilities	Other financial liabilities	1,145,526	1,145,526
Total financial liabilities			**40,704,300**	**40,704,300**

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

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 28(k).

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

Additional information about how the Company measures the allowance for impairment is described in Note 28(k).

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

6. Revenue

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

(a) Revenue streams

The Company generates revenue primarily from the supply of water and the provision of wastewater services in Armenia. Other sources of revenue include incomes from construction or upgrade services and network connection activities.

'000 AMD	**2018**	**2017**
Revenue from contracts with the customers		
Revenue from water supply and wastewater services:		
Households	12,410,475	11,490,229
Legal entities	5,944,128	5,639,171
Total revenue from contracts with the customers	**18,354,603**	**17,129,400**
Other revenue		
Revenue from construction or upgrade services	3,081,769	2,263,164
Network connection activities	148,147	10,811
Total other revenue	**3,229,916**	**2,273,975**
Total revenue	**21,584,519**	**19,403,375**

During the year ended 31 December 2018 under the Resolution of the Armenian Government No 1697-N dated 21 December 2017, the Company received government subsidies of AMD 1,070,171 thousand (2017: nil) included in revenue from water supply and wastewater services.

The Company was entitled to government subsidies for compensation of the diference between approved economically viable water supply and wastewater service tariffs and the actual reduced tariffs.

The following table provides information about the received government subsidies per type of customers.

'000 AMD	2018	2017
Received government subsides included in revenue from contracts with the customers		
Revenue from water supply and wastewater services:		
Households	724,966	-
Legal entities	345,205	-
Total revenue from contracts with the customers	**1,070,171**	**-**

(b) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical regions, major service lines, type of customer and timing of revenue recognition.

For the year ended 31 December	Households		Legal entities		Total	
'000 AMD	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Primary geographical regions of water supply and waste water services						
Yerevan	6,632,019	5,996,108	3,999,363	3,914,817	10,631,382	9,910,925
Kotayk	1,159,571	1,080,081	476,295	433,576	1,635,866	1,513,657
Ararat	985,454	945,493	194,500	188,623	1,179,954	1,134,116
Shirak	774,493	719,063	253,526	195,244	1,028,019	914,307
Armavir	752,118	704,481	160,701	138,441	912,819	842,922
Lori	694,039	637,304	190,152	166,210	884,191	803,514
Syunik	437,538	417,603	271,188	245,681	708,726	663,284
Gegharkunik	334,544	354,647	81,818	73,843	416,362	428,490
Aragatsotn	292,033	294,483	95,526	79,036	387,559	373,519
Tavush	236,283	226,056	137,479	119,156	373,762	345,212
Vayots Dzor	112,383	114,910	83,580	84,544	195,963	199,454
	12,410,475	**11,490,229**	**5,944,128**	**5,639,171**	**18,354,603**	**17,129,400**

'000 AMD	2018	2017
Primary geographical regions of construction or upgrade activities		
Yerevan	1,106,377	1,229,599
Kotayk	153,626	80,148
Ararat	332,669	293,812
Shirak	204,984	193,947
Armavir	274,899	67,404
Lori	276,487	118,853
Syunik	123,803	54,147
Gegharkunik	89,346	2,614
Aragatsotn	327,189	172,419
Tavush	141,898	31,745
Vayots Dzor	50,491	18,476
	3,081,769	**2,263,164**

'000 AMD	2018	2017	2018	2017	2018	2017
Major service lines						
Water supply and waste water services	12,410,475	11,490,229	5,944,128	5,639,171	18,354,603	17,129,400
Construction or upgrade services	-	-	-	-	3,081,769	2,263,164
Network connection activity	105,348	3,559	42,799	7,252	148,147	10,811
	12,515,823	**11,493,788**	**5,986,927**	**5,646,423**	**21,584,519**	**19,403,375**

'000 AMD	2018	2017	2018	2017	2018	2017
Timing of revenue recognition						
Products and services transferred over time	12,515,823	11,493,788	5,986,927	5,646,423	21,584,519	19,403,375
Revenue from contracts with customers	**12,515,823**	**11,493,788**	**5,986,927**	**5,646,423**	**21,584,519**	**19,403,375**

(c) Contract balances

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

'000 AMD	Note	31 December 2018	1 January 2018
Receivables, which are included in 'trade and other receivables'	15	3,416,770	2,864,565
Contract liabilities	22	489,825	324,497

The contract liabilities relate to the advance consideration received from customers for connecting to water supply and wastewater removal network of AMD 158,972 thousand (2017: AMD 85,546 thousand), for which revenue is recognised over time of power supply contract and advance consideration received from customers for the water supply and wastewater services of AMD 330,853 thousand (2017: AMD 238,951 thousand).

The amount of AMD 324,497 thousand recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2018.

No information is provided about remaining performance obligations at 31 December 2018 that have an original expected duration of one year or less, as allowed by IFRS 15.

(d) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Water supply and wastewater services	The Company's promise to cusomters is to supply water and the consideration for the water is determined based on customer's monthly consumption. Payment terms are defined in "Water supply and wastewater service rules" (WSWSR) set by industry regulator Public Services Regulatory Commission's (PSRC), according to which the Company should post relevant consumption information (monthly consumption quantities and total bill to be paid) for each consumer in the publicly available means by 15th of the month following the reporting month, after which the consumers should make cash payments in the 7 day period. No discounts are provided.	Customers simultaneously receive and consume the benefits of water supply or/and wastewater removal as it is provided and the Company transfers control of the service over time, and therefore, satisfies a performance obligation and recognizes revenue over time. The variable consideration, which represents units of consumed or removed water multiplied by the effective tariffs, is measured by the data taken from water meter readers at the end of each calendar month.	Contract revenue was recognized monthly with reference to water consumed or/and wastewater removed .
Connection to water supply and wastewater network	The Company performes activities related to connecting its cutomers to the water supply and wastewater network. Payment terms are defined in "Water supply and wastewater service rules" (WSWSR) set by industry regulator Public Services Regulatory Commission's (PSRC), according to which 80% of the fees are paid in advance and the rest when the connection activity is completed. The length of each project does not exceed 120 days per maximum terms set by the Regulator.	The activities related to the network connection do not result in the transfer of goods or services to Customers and as such are set-up activities. Thus, revenue is recognized over the water supply contract term. Advances received are included in contract liabilities.	Revenue was recognised when the risks and rewards of ownership of the goods and services were transferred to the customer.

Type of product	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Revenue from construction or upgrade services	As part of the Concession Agreement, the Company is committed to perform mandatory capital works on upgrade of the water supply infrastructure amounting to AMD 37,500,000 thousand during the term of the Agreement and incur further capital expenditure, as deemed necessary. The Company recognises the consideration received for construction as an intangible asset to the extent that it receives a right to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash or other financial asset because the amounts are contingent on the extent that the public uses the service. By substance, the Company bears the demand risks.	Revenue is recognised over time based on the cost-to-cost method. The related costs are recognised in profit or loss when they are incurred.	If the outcome of a construction contract could be estimated reliably, then contract revenue was recognised in proportion to the stage of completion of the contract. The stage of completion was assessed based on costs. Otherwise, contract revenue was recognised only to the extent of contract costs incurred that were likely to be recoverable. Contract expenses were recognised as they were incurred.

7. Cost of sales

'000 AMD	2018	2017
Labour, wages and related taxes	4,293,581	4,252,333
Depreciation and amortisation	2,883,565	2,496,663
Materials	1,988,572	1,199,353
Electricity	1,811,269	1,968,925
Outsourced construction and related services	1,804,776	1,903,319
Repair and maintenance	1,181,361	1,140,279
Security	400,055	397,115
Resource and environmental fees	131,271	112,186
Insurance	93,702	107,678
Other	66,523	87,278
	14,654,675	**13,665,129**

For the year ended 31 December 2018 outsourced construction and related services of AMD 1,804,776 thousand (2017: AMD 1,903,319 thousand), materials of AMD 1,220,939 thousand (2017: AMD 329,403 thousand) and labor, wages and related taxes of AMD 56,054 thousand (2017: AMD 30,442 thousand) were attributable to the cost of construction or upgrade service activities.

8. Distribution expenses

'000 AMD	2018	2017
Wages, salaries and related taxes	2,310,456	2,160,964
Collection fees	185,717	163,563
Rent	106,690	94,901
Materials	80,003	51,411
Advertising	50,977	46,777
Repairs and maintenance	50,929	53,897
Depreciation and amortisation	21,256	10,996
Other	89,795	81,756
	2,895,823	**2,664,265**

9. Administrative expenses

'000 AMD	2018	2017
Wages, salaries and related taxes	785,704	641,247
Professional fees	366,503	482,314
Expatriate staff fees	226,453	144,853
Utilities and communication	105,255	98,822
Repairs and maintenance	95,866	55,026
Rent	63,615	29,527
License fees for use of "Veolia" marks and domain names	59,540	53,446
Depreciation and amortisation	59,226	26,866
Representation expenses and business trips	32,859	27,436
Public services regulation fees	29,363	25,440
Office expenses	25,438	25,580
Other	115,589	93,110
	1,965,411	**1,703,667**

10. Finance income and finance costs

'000 AMD	2018	2017
Interest income under the effective interest method on:		
Bank balances (current accounts)	105,442	81,878
Total interest income arising from financial assets measured at amortised cost	**105,442**	**81,878**
Net foreign exchange gain	7,850	-
Finance income – other	**7,850**	-
Financial liabilities measured at amortised cost – interest expense	(137,881)	(48,572)
Net foreign exchange loss	-	(3,384)
Unwind of discount on liability under Concession Agreement (see Note 19)	(4,624,589)	(4,267,830)
Unwind of discount on Support Asset return liability (see Note 20)	(209,483)	(163,941)
Finance costs - other	**(4,971,953)**	**(4,483,727)**
Net finance costs recognised in profit or loss	**(4,858,661)**	**(4,401,849)**

An impairment loss on trade receivables of AMD 507,042 thousand in the year ended 2017 was reclassified from finance costs to a separate line item (see Note 5(B)).

11. Income tax expense

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

Reconciliation of effective tax rate:

	2018		2017	
	'000 AMD	%	'000 AMD	%
Loss before income tax	(3,678,007)	100	(3,609,469)	100
Income tax at applicable tax rate	(735,601)	(20.0)	(721,894)	20.0
Change in applicable tax legislation	(20,567)	0.6	-	-
Non-deductible expenses	106,925	(2.9)	171,468	(4.8)
Change in deductible temporary differences for which no deferred tax asset is recognised	473,293	(12.9)	306,358	(8.5)
Current year tax losses for which no deferred tax asset is recognised	175,950	(4.8)	244,068	(6.8)
	-	-	-	-

(a) Urecognised dedered tax assets

Deferred tax assets have not been recognised in respect of the following items:

'000 AMD	2018	2017
Deductible temporary differences	779,651	306,358
Tax losses	421,897	245,947
	1,201,548	**552,305**

The tax losses of AMD 870,355 thousand, AMD 1,229,734 thousand and AMD 9,395 thousand expire in 2023, 2020 and 2021 respectively. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom.

12. Property and equipment

'000 AMD	Machinery and equipment	Motor vehicles	Fixtures and fittings	Computer equipment	Other	Total
Cost						
Balance at 1 January 2017 (unaudited)	-	23,900	-	780	-	24,680
Additions	1,452,232	1,526,966	345,004	200,012	64,461	3,588,675
Disposals	(26,239)	-	-	-	-	(26,239)
Balance at 31 December 2017	**1,425,993**	**1,550,866**	**345,004**	**200,792**	**64,461**	**3,587,116**
Balance at 1 January 2018	1,425,993	1,550,866	345,004	200,792	64,461	3,587,116
Additions	282,873	86,662	101,848	54,354	20,743	546,480
Transfers	33,014	12,450	58,279	(120,435)	16,692	-
Disposals	(80,948)	-	(86)	-	-	(81,034)
Balance at 31 December 2018	**1,660,932**	**1,649,978**	**505,045**	**134,711**	**101,896**	**4,052,562**
Depreciation						
Balance at 1 January 2017	-	139	-	-	-	139
Depreciation for the year	248,733	249,085	53,285	41,230	3,205	595,538
Balance at 31 December 2017	**248,733**	**249,224**	**53,285**	**41,230**	**3,205**	**595,677**
Balance at 1 January 2018	248,733	249,224	53,285	41,230	3,205	595,677
Depreciation for the year	294,829	317,920	83,065	38,241	14,503	748,558
Transfers	6,949	753	8,626	(20,867)	4,539	-
Disposals	(526)	-	(69)	-	(748)	(1,343)
Balance at 31 December 2018	**549,985**	**567,897**	**144,907**	**58,604**	**21,499**	**1,342,892**
Carrying amounts						
At 1 January 2017 (unaudited)	-	23,761	-	780	-	24,541
At 31 December 2017	1,177,260	1,301,642	291,719	159,562	61,256	2,991,439
At 31 December 2018	**1,110,947**	**1,082,081**	**360,138**	**76,107**	**80,397**	**2,709,670**

Depreciation expense of AMD 685,054 thousand (2017: AMD 559,699 thousand) has been charged to cost of sales, AMD 18,688 thousand (2017: AMD 10,605 thousand) to distribution expenses and AMD 44,816 thousand (2017: AMD 25,234 thousand) to administrative expenses.

13. Intangible assets

'000 AMD	Concession intangible assets	Other	Total
Cost			
Balance at 1 January 2017 (unaudited)	-	-	-
Additions	31,316,011	112,437	31,428,448
Balance at 31 December 2017	**31,316,011**	**112,437**	**31,428,448**
Balance at 1 January 2018	31,316,011	112,437	31,428,448
Additions	3,440,128	13,401	3,453,529
Balance at 31 December 2018	**34,756,139**	**125,838**	**34,881,977**
Amortisation			
Balance at 1 January 2017	-	-	-
Amortisation for the year	1,936,856	2,131	1,938,987
Balance at 31 December 2017	**1,936,856**	**2,131**	**1,938,987**
Balance at 1 January 2018	1,936,856	2,131	1,938,987
Amortisation for the year	2,198,511	16,978	2,215,489
Balance at 31 December 2018	**4,135,367**	**19,109**	**4,154,476**
Carrying amounts			
At 1 January 2017 (unaudited)	-	-	-
At 31 December 2017	29,379,155	110,306	29,489,461
At 31 December 2018	**30,620,772**	**106,729**	**30,727,501**

Concession intangible assets correspond to the right of the concession holder – Veolia Djur cjsc to bill users of a public service in accordance with IFRIC 12, Service Concession arrangements.

Additions of concession intangible assets in the amount of AMD 358,359 thousand represent change in estimate of Provision for Support Asset return liability.

(a) Amortisation

Amortization expense of AMD 2,198,511 thousand (2017:AMD 1,936,964 thousand) has been charged to cost of sales, AMD 2,568 thousand (2017: AMD 391 thousand) to distribution expenses and AMD 14,410 thousand (2017: AMD 1,632 thousand) to administrative expenses.

14. Inventories

'000 AMD	2018	2017
Spare parts, materials and consumables	2,737,641	2,829,750
Other	29,121	41,762
	2,766,762	**2,871,512**

15. Trade and other receivables

'000 AMD	2018	2017
Trade receivables:		
Households	3,537,963	2,507,438
Legal entities	1,263,228	864,169
Allowance for impairment on trade receivables	(1,384,421)	(507,042)
Government subsidies receivables	98,877	-
Other receivables	531,433	202,579
Trade and other receivables included in loans and receivables category	**4,047,080**	**3,067,144**
Taxes receivables	90,840	124,011
Prepayments given	49,626	68,156
Total trade and other receivables	**4,187,546**	**3,259,311**

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 23.

16. Cash and cash equivalents

'000 AMD	2018	2017
Bank balances (current accounts)	2,090,274	2,991,539
Petty cash	153	127
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**2,090,427**	**2,991,666**

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 23.

17. Capital and reserves

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares	
	2018	**2017**
In issue at 1 January (Unaudited)	250	250
In issue at 31 December, fully paid	250	250
Authorised shares - par value	AMD 10,000,000	AMD 10,000,000

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.

(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 accounting regulations of the Republic of Armenia, except for restrictions on retained earnings as described below.

At 31 December 2018 the Company did not have reserves available for distribution (2017: none).

No dividends were declared at the reporting date and during 2018 (2017: none).

(c) Additional paid-in capital

The additional paid-in capital represents free of charge assets received from a related party in amount of AMD 174,175 thousand, net of related income tax.

18. Capital management

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

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

'000 AMD	**2018**	**2017**
Total liabilities	47,104,904	42,550,744
Less: cash and cash equivalents	2,090,427	2,991,666
Net debt	**45,014,477**	**39,559,078**
Total equity	(4,622,694)	(944,,687)
Net debt to equity ratio at 31 December	**(9.7)**	**(41.9)**

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

The Company is not subject to externally imposed capital requirements.

19. Liabilities under Concession Agreement

'000 AMD	2018	2017
Balance at 1 January	34,941,806	-
Increase in liabilities during the year	-	32,386,976
Decrease in liabilities during the year	(2,121,000)	(1,713,000)
Unwind of discount	4,624,589	4,267,830
Balance at 31 December	**37,445,395**	**34,941,806**

The details of measurement of the provision for Support Asset return liability are described in Note 24.

20. Provision for Support Asset return liability

'000 AMD	2018	2017
Balance at 1 January	1,388,441	-
Provision made during the year	60,763	1,224,500
Change in estimate	455,373	-
Unwind of discount	209,483	163,941
Balance at 31 December	**2,114,060**	**1,388,441**

The details of measurement of the provision for Support Asset return liability are described in Note 24.

21. 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 23.

'000 AMD	2018	2017
Current liabilities		
Unsecured borrowing from related party	5,359,000	4,616,968
	5,359,000	**4,616,968**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2018 Face value	31 December 2018 Carrying amount	31 December 2017 Face value	31 December 2017 Carrying amount
Unsecured borrowing from related party	USD	FedFund +0.85%	On demand	5,359,000	5,359,000	4,616,968	4,616,968
				5,359,000	**5,359,000**	**4,616,968**	**4,616,968**

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

'000 AMD	Note	Liabilities: Other loans and borrowings	Equity: Share capital	Total
Balance at 1 January 2018		**4,616,968**	**2,500,000**	**7,116,968**
Changes from financing cash flows				
Proceeds from loans and borrowings		724,223	-	724,223
Total changes from financing cash flows		**724,223**	**-**	**724,223**
The effect of changes in foreign exchange rates		**(1,478)**	**-**	**(1,478)**
Other changes				
Liability-related				
Interest expense	10	137,881	-	137,881
Interest paid		(94,347)	-	(94,347)
Withholding tax expense from interest paid		(24,247)	-	(24,247)
Total liability-related other changes		**19,287**	**-**	**19,287**
Total equity-related other changes		**-**	**-**	**-**
Balance at 31 December 2018		**5,359,000**	**2,500,000**	**7,859,000**

'000 AMD	Note	Liabilities: Other loans and borrowings	Equity: Share capital	Total
Balance at 1 January 2017		-	**1,500,000**	**1,500,000**
Changes from financing cash flows				
Proceeds from issue of share capital		-	1,000,000	1,000,000
Proceeds from loans and borrowings		4,598,110	-	4,598,110
Total changes from financing cash flows		**4,598,110**	**1,000,000**	**5,598,110**
The effect of changes in foreign exchange rates		**978**	**-**	**978**
Other changes				
Liability-related				
Interest expense	10	48,572	-	48,572
Interest paid		(25,867)	-	(25,867)
Withholding tax expense from interest paid		(4,825)	-	(4,825)
Total liability-related other changes		**17,880**	**-**	**17,880**
Total equity-related other changes		**-**	**-**	**-**
Balance at 31 December 2017		**4,616,968**	**2,500,000**	**7,116,968**

22. Trade and other payables

'000 AMD	2018	2017
Trade payables	567,224	560,989
Prepayments received from customers	489,825	324,497
Salaries and wages	307,543	316,956
Vacation reserve	292,166	267,581
Taxes payable	355,730	32,145
Other	130,417	57,817
	2,142,905	**1,559,985**

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 23.

23. 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, liabilities under Concession Agreement 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 a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

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

The carrying amounts of financial assets represent the maximum credit exposure.

Impairment losses on financial assets recognised in profit or loss were as follows:

'000 AMD	**2018**	**2017**
Impairment loss on trade receivables arising from contracts with customers	(877,379)	(507,042)

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.

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

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for individual and corporate customers.

At 31 December 2018, the exposure to credit risk for trade receivables by type of counterparty was as follows.

	Carrying amount	
'000 AMD	**2018**	**2017**
Households	2,572,166	2,106,708
Legal entities	844,604	757,857
	3,416,770	**2,864,565**

None of the Company's customers have external credit ratings assigned.

Comparative information under IAS 39

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

'000 AMD	Gross 2017	Impairment 2017
Not past due	2,002,976	67,980
Past due 0- 30 days	388,300	42,678
Past due 31-120 days	639,731	180,682
Past due 121-365 days	340,600	215,702
	3,371,607	**507,042**

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

The Company uses an allowance matrix to measure the ECLs of trade receivables from all customers, which comprise large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – type of customer (legal entities versus individuals).

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2018.

'000 AMD	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	4%	2,159,146	80,696	No
1-30 days past due	15%	457,175	69,396	No
31-90 days past due	29%	665,525	194,351	No
91-180 days past due	49%	675,891	332,893	Yes
181-365 days past due	77%	583,148	446,779	Yes
More than 365 days past due	100%	260,306	260,306	Yes
		4,801,191	**1,384,421**	

Loss rates are based on actual credit loss experience over the past two years. Considering the short nature of trade receivable balances (up to 30 days), no forward looking information is incorporated into ECL calculation by the Company.

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

'000 AMD	**2018**	**2017**
Balance at 1 January under IAS 39	**(507,042)**	-
Adjustment on initial application of IFRS 9	-	-
Balance at 1 January under IFRS 9	**(507,042)**	-
Net remeasurement of loss allowance	(877,379)	(507,042)
Balance at 31 December	**(1,384,421)**	**(507,042)**

Cash and cash equivalents

The Company held bank balances (current accounts) of AMD 2,090,274 thousand at 31 December 2018 (2017: AMD 2,991,539 thousand), which represents its maximum credit exposure on these assets. The bank balances (current accounts) are held with reputable Armenian banks and the Company does not expect them to fail to meet their obligations.

Per Company's assessment no impairment loss is recognised on current account primarily due to their short maturitirs.

(iii) Liquidity risk

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

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

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

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

31 December 2018 '000 AMD	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 months**	**2-12 months**	**1-2 yrs**	**2-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities								
Unsecured borrowing from related party	5,359,000	5,359,000	5,359,000	-	-	-	-	-
Liabilities under Concession Agreement	37,445,395	85,915,000	-	-	2,937,000	3,745,000	18,931,000	60,302,000
Trade and other payables	1,166,933	1,166,933	-	974,362	192,571	-	-	-
	43,971,328	**92,440,933**	**5,359,000**	**974,362**	**3,129,571**	**3,745,000**	**18,931,000**	**60,302,000**

31 December 2017 '000 AMD	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 months**	**2-12 months**	**1-2 yrs**	**2-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities								
Unsecured borrowing from related party	4,616,968	4,616,968	4,616,968	-	-	-	-	-
Liabilities under Concession Agreement	34,941,806	88,036,000	-	-	2,121,000	2,937,000	15,461,000	67,517,000
Trade and other payables	1,145,526	1,145,526	-	1,068,970	76,556	-	-	-
	40,704,300	**93,798,494**	**4,616,968**	**1,068,970**	**2,197,556**	**2,937,000**	**15,461,000**	**67,517,000**

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 and interest rates 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 sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company. The currency in which these transactions primarily are denominated is USD.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

'000 AMD	**USD-denominated 2018**	**USD-denominated 2017**
Loans and borrowings	(5,359,000)	(4,616,968)
	(5,359,000)	**(4,616,968)**

The following significant exchange rates applied during the year:

in AMD	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**2018**	**2017**
USD 1	483.93	482.63	483.75	484.10

Sensitivity analysis

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

'000 AMD	**Strengthening**	**Weakening**
	Profit or loss	**Profit or loss**
31 December 2018		
AMD 10% movement against USD	428,720	(428,720)
31 December 2017		
AMD 10% movement against USD	369,357	(369,357)

Interest rate risk

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

Exposure to interest rate risk

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

	Carrying amount	
'000 AMD	**2018**	**2017**
Variable rate instruments		
Financial liabilities	**5,359,000**	**4,616,968**

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100 bp increase	**100 bp decrease**
'000 AMD		
2018		
Variable rate instruments	(50,388)	50,388
Cash flow sensitivity (net)	**(50,388)**	**50,388**
2017		
Variable rate instruments	(46,170)	46,170
Cash flow sensitivity (net)	**(46,170)**	**46,170**

24. Concession Agreement

On 21 November 2016 a 15-year agreement was signed between the Company, CGE and the Grantor in relation to the provision of services for water supply and wastewater services in Armenia, technical and commercial management.

During the term of the agreement, the Company is the exclusive right holder for the use of the Infrastructure to enable the provision of the services.

During the term of the agreement the tariffs to be charged to customers for the provision of services are set by the Public Services Regulatory Commission of the Republic of Armenia but are dependent on several factors in the Concession Agreement such as EUR/AMD exchange rate, water consumption volumes, inflation and electricity prices and collection rates from customers.

(a) Concession fee payments to the Grantor

Under the Concession Agreement the Company is required to make regular payments to the Grantor over the concession period to acquire the right to charge users of public services.

The following fixed fee payments are required to be made by the Company to the Grantor over the term of the Concession Agreement:

'000 AMD	**2018**	**2017**
Less than one year	2,937,000	2,121,000
Between one and five years	22,676,000	18,398,000
More than five years	60,302,000	67,517,000
	85,915,000	**88,036,000**

The Company included the fair value of such payments, representing the present value of the annual payments to the Grantor, discounted at a pre-tax discount rate of 13.5% in the cost of concession intangible assets and recognised a corresponding concession liability at inception of the Concession Agreement.

The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 28% at a market interest rate of 12.3%.

(b) Operation services

The Company accounts for revenue and costs relating to water supply and wastewater services in accordance with IFRS 15.

(c) Construction or upgrade services

As part of the Concession Arrangement the Company is committed to perform mandatory capital works on upgrade of the water supply infrastructure amounting to AMD 37,500,000 thousand as presented in the table below and incur further capital expenditure, as deemed necessary.

Contract year	Amount '000 AMD	Contract year	Amount '000 AMD
1	1,500,000	11	2,750,000
2	1,750,000	12	2,500,000
3	2,250,000	13	2,500,000
4	2,750,000	14	2,500,000
5	2,750,000	15	2,500,000
6	2,750,000		
7	2,750,000		
8	2,750,000		
9	2,750,000		
10	2,750,000		

On 12 December 2018 based on the agreement No 8, signed between the Company, Veolia Eau - Compagnie Generale des Eaux, France ("CGE") and the Government of the Republic of Armenia, represented by the Water Committee of the RA Ministry of Energy Infrastructures and Natural Resources, the tariff increase for 2019 was postponed to 2025 and the mandatory capital works on upgrade for 2019 were reduced by AMD 1,028,000 thousand.

The Company accounts for revenue and costs relating to construction or upgrade services in accordance with IFRS 15.

For the year ended 31 December 2018, the Company has recognised revenue of AMD 21,584,519 thousand (2017: AMD 19,403,375 thousand), consisting of AMD 3,081,769 thousand (2017: AMD 2,263,164 thousand) on construction and AMD 18,502,750 thousand (2017: AMD 17,140,211 thousand) on water supply and wastewater services. The revenue recognised in relation to construction in 2018 and 2017 represents the fair value of the construction services provided in reconstruction of the water distribution and wastewater removal facilities. These were provided in exchange for the right to charge customers and represent non-cash investing transactions.

As at 31 December 2018 the Company has recognised an intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement of AMD 3,081,769 thousand (31 December 2017: AMD 2,263,164 thousand). The intangible asset represents the right to charge users a fee for use of public services.

(d) Support assets

On 1 January 2017 under the Concession Agreement the Company received from the Grantor equipment with a fair value of AMD 2,578,546 thousand and materials with a fair value of AMD 1,980,083 thousand as Support Assets in addition to the Infrastructure.

During the year ended 31 December 2018 the Company received from the Grantor additional equipment with a fair value of AMD 68,466 thousand and materials with a fair value of AMD 80,638 thousand. As at 31 December 2018 the Provision for Support Asset return liability for these items amounted AMD 60,763 thousand (Note 20).

These assets are recognised as assets of the Company, measured at fair value on initial recognition.

The operator may retain, use or sell the assets at its discretion but in order to ensure the provision of the services by the subsequent operator. The Company has to transfer to the Grantor the Support Assets at the end of the Concession Agreement (without compensation) equivalent to the items transferred at the beginning of the Concession Agreement. However equivalency is not defined in the Concession Agreement.

As at 31 December 2018 and 2017 the Company recognised a return liability for the Support Assets treating equivalency as monetary equivalency of the Support Assets. The return liability included the following components and was measured as follows:

- inventory component - the amount required to replace the materials at the end of the Concession Agreement term. The measurement of the liability was based on the current prices of the materials adjusted for estimated inflation assessed by management.
- property and equipment component - management's best estimate of the amount required to restore the property and equipment to their original state at the end of the Concession Agreement term. The measurement of the liability was based on the current prices of the property and equipment adjusted for estimated inflation assessed by management.

The return liability as at 31 December 2018 was discounted using a real risk-free rate of 11.00% (2017: 13.39%).

The difference between the return liability as at 31 December 2018 and 2017 and the fair value of Support Assets was presented as a deduction from concession intangible assets.

25. 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 and business interruption. 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.

26. Related party transactions

(a) Control relationships

The Company is wholly owned by Veolia Eau - Compagnie Generale des Eaux, France. The Company's ultimate parent company and the ultimate controlling party is Veolia Environment SA. Veolia Environment SA produces publicly available financial statements.

(b) Transactions with key management personnel

Key management remuneration

Key management received the following remuneration during the year, which is included in administrative expenses:

'000 AMD	2018	2017
Expatriate staff fees and other benefits	242,613	162,015
Salaries and bonuses	153,398	74,202

(c) Other related party transactions

The Company's other related party transactions are disclosed below.

'000 AMD	Transaction value 2018	Transaction value 2017	Outstanding balance 2018	Outstanding balance 2017
Services received				
Ultimate parent company	(181,969)	(179,990)	(166,298)	(37,968)
Entities under common control	(83,177)	(45,808)	(8,449)	(2,503)
Purchase of goods and property and equipment				
Entities under common control	(57,170)	(507,208)	-	(3,655)
Services provided				
Ultimate parent company	5,334	-	-	-
Entities under common control	5,466	40,132	3,093	-
Prepayments for goods and services				
Ultimate parent company	262,839	283,981	-	-
Entities under common control	181,985	580,555	-	-
Free of charge assets received (Note 17(c))				
Entities under common control	-	217,719	217,719	217,719
Loans received:				
Entities under common control	(724,223)	(4,598,110)	(5,359,000)	(4,616,968)
Others:				
Ultimate parent company	(59,540)	(53,446)	-	-
Entities under common control	(85,475)	(30,735)	(116,210)	(30,735)

The loan from the entity under common control bears interest at FedFund+0.85% per annum and is repayable upon demand. During 2018 interest expense of AMD 137,881 thousand was accrued on loans received from the entity under common control (2017: AMD 48,572 thousand).

27. Basis of measurement

The financial statements are prepared on the historical cost basis.

28. Significant accounting policies

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

(a) Revenue

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

(b) Finance income and costs

The Company's finance income and finance costs include:

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

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

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

(g) 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) Infrastructure

In accordance with IFRIC 12 *Service Concession Arrangements* assets used in the services provided by the Company (the "Infrastructure") are not recognized as property and equipment of the Company, if both of the following criteria are satisfied:

- the Grantor controls or regulates the services to be provided by the Company using the Infrastructure, the beneficiaries of the services and prices applied;
- the Grantor controls the significant residual interest in the Infrastructure at the end of the term of the arrangement.

(iii) 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.

(iv) 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.

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

• machinery and equipment	3-10 years
• motor vehicles	3-10 years
• fixtures and fittings	3-10 years
• computer equipment	2-5 years
• other	4-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Intangible assets

(i) Service concession arrangements

The Company recognises an intangible asset arising from a service concession arrangement when it has a right to charge for use of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value on initial recognition with reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Company is able to charge the public for the use of the infrastructure to the end of the concession period.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

• Concession intangible assets	Concession Agreement term
• other	5-15 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

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

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

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

The Company classified its financial assets into financial assets at amortised cost category. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets – Policy applicable before 1 January 2018

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

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

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

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised and are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange). Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(j) Share capital

Ordinary shares

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

(k) Impairment

(i) Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company in full; or
- the financial asset is more than 365 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

Due to short maturities of trade receivables no discounting is applied for the ECLs.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 3 years past due based on historical experience of recoveries of similar assets. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Non-derivative financial assets

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

Objective evidence that financial assets were impaired included:

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

Financial assets measured at amortised cost

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

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

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

(ii) Non-financial assets

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

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU 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.

29. New standards and interpretations not yet adopted

Two new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

(a) IFRS 16 *Leases*

The Company is required to adopt IFRS 16 *Leases* from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because: the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

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

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

(i) Leases in which the Company is a lessee

The Company 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, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

The Company plans to apply the practical expedient to its short-term operating lease contracts. Based on initial assessment, no significant impact is expected for leases in which the Company is a lessee.

(ii) Transition

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

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

(b) Other standards and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle* – various standards
- *Amendments to References to Conceptual Framework in IFRS Standards*
- *IFRS 17 Insurance Contracts*