Veolia Djur cjsc

Financial Statements
for 2017

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KPMG Armenia cjsc
8th floor, Erebuni Plaza Business Center,
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia
Telephone + 374 (10) 566 762
Fax + 374 (10) 566 762
Internet www.kpmg.am

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 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Other Matter

The corresponding figures as at 31 December 2016 and for the period from 16 November 2016 to 31 December 2016 are unaudited.

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.

- 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 cjsc

KPMG Armenia cjsc
30 June 2018

'000 AMD	**Note**	**2017**	**From 16 November 2016 (date of incorporation) to 31 December 2016**
			Unaudited
Revenue	5	19,403,375	-
Cost of sales	6	(13,665,129)	-
Gross profit		**5,738,246**	**-**
Other income		185,060	-
Distribution expenses	7	(2,664,265)	-
Administrative expenses	8	(1,703,667)	(9,543)
Other expenses	9	(255,952)	(531)
Results from operating activities		**1,299,422**	**(10,074)**
Finance income	10	81,878	681
Finance costs	10	(4,990,769)	-
Net finance (costs)/income		**(4,908,891)**	**681**
Loss and total comprehensive loss for the year		**(3,609,469)**	**(9,393)**

The authorization to sign the financial statements was given by the Board of Directors and the financial statements were signed on its behalf on 30 June 2018.

Christian Lefaix
General Director

Arman Mnacakanyan
Finance Director

’000 AMD	Note	31 December 2017	31 December 2016
			Unaudited
Assets			
Property and equipment	12	2,991,439	24,541
Intangible assets	13	29,489,461	-
Other non-current assets		2,668	-
Non-current assets		**32,483,568**	**24,541**
Inventories	14	2,871,512	26,235
Trade and other receivables	15	3,259,311	17,369
Cash and cash equivalents	16	2,991,666	1,432,682
Current assets		**9,122,489**	**1,476,286**
Total assets		**41,606,057**	**1,500,827**
Equity			
Share capital		2,500,000	1,500,000
Additional paid-in capital		174,175	-
Accumulated losses		(3,618,862)	(9,393)
Total equity	17	**(944,687)**	**1,490,607**
Liabilities			
Liabilities under Concession Agreement	19; 24	32,820,806	-
Provision for Support Asset return liability	20	1,388,441	-
Deferred tax liabilities	11	43,544	-
Non-current liabilities		**34,252,791**	-
Liabilities under Concession Agreement	19; 24	2,121,000	-
Loans and borrowings	21	4,616,968	-
Trade and other payables	22	1,559,985	10,220
Current liabilities		**8,297,953**	**10,220**
Total liabilities		**42,550,744**	**10,220**
Total equity and liabilities		**41,606,057**	**1,500,827**

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 43.

'000 AMD	**Share capital**	**Additional paid-in capital**	**Accumulated losses**	**Total**
Balance at 16 November 2016	-	-	-	-
Comprehensive loss				
Loss for the period	-	-	(9,393)	(9,393)
Total comprehensive loss for the period	**-**	**-**	**(9,393)**	**(9,393)**
Transactions with owners of the Company				
Issue of ordinary shares	1,500,000	-	-	1,500,000
Total transactions with owners of the Company	**1,500,000**	**-**	**-**	**1,500,000**
Balance at 31 December 2016 (unaudited)	**1,500,000**	**-**	**(9,393)**	**1,490,607**
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)**

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 43.

’000 AMD	**Note**	**2017**	**From 16 November 2016 (date of incorporation) to 31 December 2016**
Cash flows from operating activities			**Unaudited**
Loss for the year		(3,609,469)	(9,393)
Adjustments for:			
Depreciation and amortisation	6,7,8	2,534,525	139
Net finance costs/(income)	10	4,908,891	(680)
Non-cash revenue from construction or upgrade services	5, 24	(2,263,164)	-
		1,570,783	**(9,934)**
Changes in:			
Inventories		(671,477)	(26,235)
Trade and other receivables		(3,748,984)	(17,369)
Trade and other payables		1,549,765	10,220
Cash flows from operations before income taxes and interest paid		**(1,299,913)**	**(43,318)**
Interest paid	21	(25,867)	-
Payment for liabilities under Concession Agreement	19	(1,713,000)	-
Net cash used in operating activities		**(3,038,780)**	**(43,318)**
Cash flows from investing activities			
Acquisition of property and equipment		(992,904)	(24,541)
Acquisition of intangible assets		(91,103)	-
Interest received		81,878	541
Net cash used in investing activities		**(1,002,129)**	**(24,000)**
Cash flows from financing activities			
Proceeds from issue of share capital	21(b)	1,000,000	1,500,000
Proceeds from loans and borrowings	21(b)	4,598,110	-
Net cash flows from financing activities		**5,598,110**	**1,500,000**
Net increase in cash and cash equivalents		**1,557,201**	**1,432,682**
Cash and cash equivalents at 1 January		1,432,682	-
Effect of movements in exchange rates on cash and cash equivalents		1,783	-
Cash and cash equivalents at 31 December	16	**2,991,666**	**1,432,682**

* The Company’s non-cash investing activities are disclosed in note 23(c).

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 43.

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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 State Committee for Water Economy (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 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”).

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 significant areas of estimation uncertainty and critical judgments in applying accounting policies is included in the following notes:

- Note 28 (g) (*iv*) – useful lives of property and equipment;
- Note 24 - measurement of the liabilities under Concession Agreement;
- Note 23 (b) - impairment of trade receivables.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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.

5. Revenue

'000 AMD	**2017**	**From 16 November 2016 (date of incorporation) to 31 December 2016**
		Unaudited
Revenue from water supply and wastewater services:		
Households	11,490,229	-
Legal entities	5,639,171	-
Revenue from construction or upgrade services	2,263,164	-
Other	10,811	-
	19,403,375	**-**

Revenue from water supply and wastewater services does not include amounts estimated at AMD 275,602 thousand (2016: nil) for sales from which the recovery of the consideration at the time the sales were made was not probable. These relate to sales to customers with no meters installed when the sale amount is measured based on pre-determined usage standards.

6. Cost of sales

'000 AMD	**2017**	**From 16 November 2016 (date of incorporation) to 31 December 2016**
		Unaudited
Labour, wages and related taxes	4,252,333	-
Depreciation and amortisation	2,496,663	-
Electricity	1,968,925	-
Outsourced construction and related services	1,903,319	-
Materials	1,199,353	-
Repair and maintenance	1,140,279	-
Security	397,115	-
Resource and environmental fees	112,186	-
Insurance	107,678	-
Other	87,278	-
	13,665,129	**-**

7. Distribution expenses

’000 AMD	2017	From 16 November 2016 (date of incorporation) to 31 December 2016
		Unaudited
Wages, salaries and related taxes	2,160,964	-
Collection fees	163,563	-
Rent	94,901	-
Repairs and maintenance	53,897	-
Materials	51,411	-
Advertising	46,777	-
Depreciation and amortisation	10,996	-
Other	81,756	-
	2,664,265	-

8. Administrative expenses

’000 AMD	2017	From 16 November 2016 (date of incorporation) to 31 December 2016
		Unaudited
Wages, salaries and related taxes	641,247	-
Professional fees	482,314	-
Expatriate staff fees	144,853	8,641
Utilities and communication	98,822	105
Repairs and maintenance	55,026	300
License fees for use of "Veolia" marks and domain names	53,446	-
Rent	29,527	-
Representation expenses and business trips	27,436	-
Depreciation and amortisation	26,866	139
Office expenses	25,580	-
Public services regulation fees	25,440	-
Other	93,110	358
	1,703,667	**9,543**

9. Other expenses

’000 AMD	**2017**	**From 16 November 2016 (date of incorporation) to 31 December 2016**
		Unaudited
Taxes other than on income	145,518	-
Donations	29,845	-
Other	80,589	531
	255,952	**531**

10. Finance income and finance costs

’000 AMD	**2017**	**From 16 November 2016 (date of incorporation) to 31 December 2016**
		Unaudited
Recognised in profit or loss		
Interest income on bank accounts	81,878	681
Finance income	**81,878**	**681**
Unwinding of discount on liability under Concession Agreement (see note 19)	(4,267,830)	-
Impairment of trade receivables (see note 22(b))	(507,042)	-
Interest expense on loans and borrowings	(48,572)	-
Unwinding of discount on Support Asset return liability (see note 20)	(163,941)	-
Net foreign exchange loss	(3,384)	-
Finance costs	**(4,990,769)**	**-**
Net finance (costs)/income recognised in profit or loss	**(4,908,891)**	**681**

11. Income tax expense

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

Reconciliation of effective tax rate:

	2017		From 16 November 2016 (date of incorporation) to 31 December 2016	
	'000 AMD	**%**	**'000 AMD**	**%**
Profit before income tax	(3,609,469)	100	(9,393)	100
Income tax at applicable tax rate	(721,894)	20.0	(1,879)	20.0
Non-deductible expenses	171,468	(4.8)	-	-
Deductible temporary differences for which no deferred tax asset is recognised	306,358	(8.5)	-	-
Current year tax losses for which no deferred tax asset is recognised	244,068	(6.8)	1,879	(20.0)
	-	**-**	**-**	**-**

(a) Unrecognised deferred tax assets

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

'000 AMD	**2017**	**2016**
		Unaudited
Deductible temporary differences	306,358	**-**
Tax losses	245,947	1,879
	552,305	**1,879**

The tax losses of AMD 1,229,734 thousand and 9,395 thousand expire in 2021 and 2022 respectively. Deferred tax assets have not been recognised in respect of these items because the Company is in a start-up phase and it is not appropriate to forecast the future profits of the Company in this phase.

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.

The Company plans to apply to PSRC in July 2018 to increase the tariffs. The management believes that if the tariff is increased to the expected level, it would allow the Company to earn sufficient tax profit to recover the unrecognized deferred tax asset.

(b) Recognised deferred tax assets and liabilities

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 AMD	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Free of charge assets received from a related party	-	-	(43,544)	-	(43,544)	-
Net tax liabilities	**-**	**-**	**(43,544)**	**-**	**(43,544)**	**-**

(c) Movement in temporary differences during the year

'000 AMD	**1 January 2017**	**Recognized in other comprehensive income**	**31 December 2017**
Free of charge assets received from a related party	**-**	**(43,544)**	**(43,544)**

12. Property and equipment

’000 AMD	Machinery and equipment	Motor vehicles	Fixtures and fittings	Computer equipment	Other	Total
Cost						
Balance at 16 November 2016	-	-	-	-	-	-
Additions	-	23,900	-	780	-	24,680
Balance at 31 December 2016 (unaudited)	**-**	**23,900**	**-**	**780**	**-**	**24,680**
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**
Depreciation						
Balance at 16 November 2016	-	-	-	-	-	-
Depreciation for the period	-	139	-	-	-	139
Balance at 31 December 2016	**-**	**139**	**-**	**-**	**-**	**139**
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**
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**

Depreciation expense of AMD 559,699 thousand (2016: nil) has been charged to cost of sales, AMD 10,605 thousand (2016: nil) to distribution expenses and AMD 25,234 thousand (2016: AMD 139 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**
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**
Carrying amounts			
At 1 January 2017 (Unaudited)	-	-	-
At 31 December 2017	**29,379,155**	**110,306**	**29,489,461**

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.

(a) Amortisation

Amortization expense of AMD 1,936,964 thousand (2016: nil) has been charged to cost of sales, AMD 391 thousand (2016: nil) to distribution expenses and AMD 1,632 thousand (2016: nil) to administrative expenses.

14. Inventories

’000 AMD	2017	2016
		Unaudited
Spare parts, materials and consumables	2,829,750	26,235
Other	41,762	-
	2,871,512	**26,235**

15. Trade and other receivables

’000 AMD	2017	2016
		Unaudited
Trade receivables:		
Households	2,507,438	-
Legal entities	864,169	-
Allowance for impairment on trade receivables	(507,042)	-
Other receivables	202,579	-
Trade and other receivables included in loans and receivables category	**3,067,144**	**-**
Tax receivables	124,011	1,770
Prepayments given	68,156	15,599
	3,259,311	**17,369**

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	2017	2016
		Unaudited
Bank balances	2,991,539	1,432,682
Petty cash	127	-
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**2,991,666**	**1,432,682**

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**	
	2017	**2016**
In issue at 1 January (Unaudited)	250	150
In issue at 31 December, fully paid	250	150
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 2017 the Company did not have reserves available for distribution (2016: none). No dividends were declared at the reporting date and during 2017 (2016: 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.

19. Liabilities under Concession Agreement

’000 AMD	**2017**	**2016**
		Unaudited
Balance at 1 January	-	-
Increase in liabilities during the year	32,386,976	-
Decrease in liabilities during the year	(1,713,000)	-
Unwinding of discount	4,267,830	-
Balance at 31 December	**34,941,806**	**-**

20. Provision for Support Asset return liability

’000 AMD	**2017**	**2016**
		Unaudited
Balance at 1 January	-	-
Increase in liabilities during the year	1,224,500	-
Unwinding of discount	163,941	-
Balance at 31 December	**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	**2017**	**2016**
Current liabilities		**Unaudited**
Unsecured borrowing from related party	4,616,968	-
	4,616,968	**-**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2017		31 December 2016	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured borrowing from related party	USD	FedFund +0.85%	On demand	4,616,968	4,616,968	-	-
				4,616,968	**4,616,968**	**-**	**-**

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

		Liabilities	Equity	
'000 AMD	**Note**	**Other loans and borrowings**	**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	**2017**	**2016**
		Unaudited
Payables to employees	584,537	-
Trade payables	560,989	8,484
Trade and other payables included in financial liabilities category	**1,145,526**	**8,484**
Prepayments received	336,803	-
Taxes payable	32,145	1,736
Other	45,511	-
	1,559,985	**10,220**

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) 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.

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 and cash and cash equivalents.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure.

Trade and other receivables

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

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

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

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

	Carrying amount	
'000 AMD	**2017**	**2016**
		Unaudited
Households	2,106,708	-
Legal entities	757,857	-
	2,864,565	**-**

The aging of trade receivables at the reporting date was:

'000 AMD	**Gross 2017**	**Impairment 2017**	**Gross 2016**	**Impairment 2016**
			Unaudited	**Unaudited**
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**	**-**	**-**

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

'000 AMD	**2017**	**2016**
		Unaudited
Balance at beginning of the year	-	-
Increase during the year	507,042	-
Balance at end of the year	**507,042**	**-**

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

The Company estimated collective impairments for trade receivables based on historical loss experience on each type of customer. The significant assumption used by management in determining the impairment losses for trade receivables is that the loss migration rates are constant and can be estimated based on the historic loss migration pattern for the period since the date of incorporation.

To the extent that the net present value of the estimated cash flows based on migration rates differs by three percent, the impairment allowance on trade receivables as at 31 December 2017 would be AMD 85,937 thousand lower/higher.

Cash and cash equivalents

The Company held bank balances of AMD 2,991,539 thousand at 31 December 2017 (2016: AMD 1,432,682 thousand), which represents its maximum credit exposure on these assets. The bank balances are held with reputable Armenian banks and the Company does not expect them to fail to meet their obligations.

(iii) Liquidity risk

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

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

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 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	-	-	-	-	-
Trade and other payables	1,145,526	1,145,526	-	1,068,970	76,556	-	-	-
Liabilities under Concession Agreement	34,941,806	88,036,000	-	-	2,121,000	2,937,000	15,461,000	67,517,000
	40,704,300	**93,798,494**	**4,616,968**	**1,068,970**	**2,197,556**	**2,937,000**	**15,461,000**	**67,517,000**

31 December 2016 **’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								
Trade and other payables	8,484	8,484	-	8,484	-	-	-	-

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 AMD. 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 2017	EUR-denominated 2017	USD-denominated 2016	EUR-denominated 2016
Loans and borrowings	(4,616,968)	-	-	-
Trade payables	-	(141,085)	-	-
	(4,616,968)	**(141,085)**	**-**	**-**

The following significant exchange rates applied during the year:

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

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 and ignores any impact of forecast sales and purchases.

'000 AMD	Strengthening	Weakening
	Profit or loss	**Profit or loss**
31 December 2017		
AMD 10% movement against USD	461,697	(461,697)
AMD 10% movement against EUR	14,109	(14,109)

Interest rate risk

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

Exposure to interest rate risk

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

	Carrying amount	
'000 AMD	**2017**	**2016**
Fixed rate instruments		
Financial liabilities	**4,616,968**	-

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100 bp increase	**100 bp decrease**
'000 AMD		
2017		
Variable rate instruments	(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	**2017**	**2016**
Less than one year	2,121,000	-
Between one and five years	25,613,000	-
More than five years	60,302,000	-
	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 IAS 18.

(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		

The Company accounts for revenue and costs relating to construction or upgrade services in accordance with IAS 11.

For the year ended 31 December 2017, the Company has recognised revenue of AMD 19,403,375 thousand, consisting of AMD 2,263,164 thousand on construction and 17,140,211 thousand on water supply and wastewater services. The revenue recognised in relation to construction in 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.

The Company has recognised an intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement of 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.

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 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 2017 was discounted using a real risk-free rate of 13.39%.

The difference between the return liability as at 31 December 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	2017	From 16 November 2016 (date of incorporation) to 31 December 2016
Expatriate staff fees	162,015	8,641
Salaries and bonuses	74,202	-

(c) Other related party transactions

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

’000 AMD	Transaction value 2017	Transaction value 2016	Outstanding balance 2017	Outstanding balance 2016
Services received:				
Ultimate parent company	179,990	-	37,968	-
Entities under common control	45,808	-	2,503	-
Purchase of goods and property and equipment				
Entities under common control	507,208	-	3,655	-
Services provided:				
Entities under common control	40,132	-	-	-
Free of charge assets received:				
Entities under common control	217,719	-	217,719	-
Loans received:				
Entities under common control	4,598,110	-	4,616,968	-
Others:				
Ultimate parent company	53,446	-	-	-

The loan from the entity under common control bears interest at FedFund+0.85% per annum and is repayable upon demand. During 2017 interest expense of AMD 48,572 thousand was accrued on loans received from the entity under common control (2016: nil).

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, and have been applied consistently by the Company.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

(a) Revenue 33
(b) Finance income and costs 34
(c) Foreign currency 34
(d) Short-term employee benefits 34
(e) Income tax 34
(f) Inventories 35
(g) Property, plant and equipment 35
(h) Intangible assets 36
(i) Financial instruments 37
(j) Share capital 38
(k) Impairment 38
(l) Provisions 39

(a) Revenue

(i) Service concession arrangements

Revenue related to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Company's accounting policy on recognising revenue on construction contracts.

Operation or service revenue is recognised in the period in which the services are provided by the Company on the basis of metered usage of water by households and legal entities. For customers with no meters installed, revenue is recognized based on cash received because such customers rarely pay their bills.

If the Company provides more than one service in a service concession arrangement, then the consideration received is allocated with reference to the relative fair values of the services delivered if the amounts are separately identifiable.

(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.

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

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

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

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

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

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

Loans and receivables

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

Loans and receivables category comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities - measurement

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

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

(j) Share capital

Ordinary shares

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

(k) Impairment

(i) Non-derivative financial assets

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

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

Financial assets measured at amortised cost

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

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

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

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

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

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

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

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

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

(a) IFRS 9 *Financial Instruments*

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

(i) Classification - Financial assets

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

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

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

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

(ii) Impairment - Financial assets and contract assets

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

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

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

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

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

The Company has not finalized the assessment of the impact of IFRS 9's impairment requirements on its financial statements.

(iii) Classification - Financial liabilities

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

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

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

(iv) Disclosures

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

(v) Transition

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

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

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

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

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

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

(i) Rendering of services

The Company is involved in provision of wastewater services in Armenia as well as, developing and improving the performance of the country's water distribution network. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognised using the stage-of-completion method.

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

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

(ii) Transition

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

(c) IFRS 16 *Leases*

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

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

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

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

(i) Transition

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

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

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

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

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

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