

YEREVAN THERMAL POWER CENTRE CJSC

**Financial Statements
and
Independent Auditor's Report**

For the year ended 31 December 2018

YEREVAN THERMAL POWER CENTRE CJSC
Annual report and financial statements
For the year ended 31 December 2018

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Country of incorporation:	3rd Building, Arin-Berdi St. 3rd Lane, Yerevan, Republic of Armenia
Legal form:	Closed Joint-Stock Company
Principal activities:	The Company produces electricity from gas through thermal power center
Director:	Sasun Khachatryan

The Board

Hovhannes Burmanyanyan	Chairman of the Board, Ministry of Energy Infrastructures and Natural Resources of the Republic of Armenia, Head of legal department
Boris Gyulumayn	Ministry of Energy Infrastructures and Natural Resources of the Republic of Armenia, Head of Financial and economic Department
Armen Meliq-Israyelyan	Head of Department of Shares Management of the Department of State Property Management by the Government of the RA
Stepan Petrosyan	Corresponding Member of the National Academy of Sciences of RA, Doctor of Physical and Mathematical Sciences
Natalya Sarjanyan	Head of the Department for corporate and Public Relations of Electric Networks of Armenia" CJSC
Sasun Khachatryan	General Director of "Yerevan Thermal Power Centre" CJSC

INDEPENDENT AUDITOR'S REPORT

To the Management of the "Yerevan Thermal Power Centre" CJSC

Report on Audit of Financial Statements

Qualified Opinion

We have audited the financial statements of "Yerevan Thermal Power Centre" CJSC ("Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Company as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of Qualified Opinion

Since 2010 the company has been operating a new thermal power plant, with the carrying amount of 112 billion AMD as of 31.12.2018 (Not. 4.b). The depreciation of the plant is calculated by straight-line method, with a 40-year period of useful life, although some significant parts of the plant have a shorter useful life. In our opinion, this approach does not comply with the requirements of IAS 16, *Property, Plant and Equipment*.

Due to technical specifications of the plant, we ourselves could not assess the amount of the depreciation for the new plant in accordance with IAS 16, consequently, we could not estimate the impact of the amount of additional depreciation on the carrying amount of PPE and on financial results.

As at 31.12.2018, the Company's inventories include inventories not useful for further use with a total cost of 1 billion AMD (note 6), for which the net realizable value was not assessed at the reporting date and the inventory value was not reduced to the net realizable value. In our opinion, this approach does not comply with the requirements of IAS 2, *Inventories*.

Due to technical specifications of the inventories, we ourselves could not assess their net realizable value, so we could not estimate the impact of impairment on inventory value and on financial results.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled out other ethical requirements in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

We draw Your attention to Note 3.3. of the financial statements, which describes that the Company has cumulative loss of 19 billion AMD as of the reporting date (for the year ended 31 Dec 2017: 20 billion AMD). As stated in Note 3.3, these conditions, along with other matters as set in Note 3.3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of the management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with management 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.

Report on meeting other legal requirements

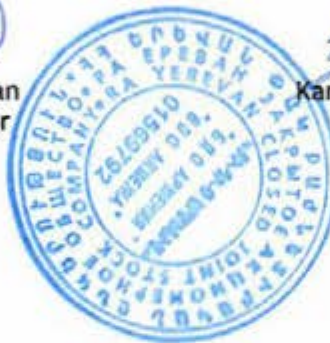
According to the C.2.a.(vi) point in Section II of the 8615-AM Loan Agreement signed between the Republic of Armenia ("RoA") and the International Bank for Reconstruction and Development ("IBRD") on May 12, 2016, and according to 4.14 point of the Sub-loan Agreement signed between the RoA Ministry of Finance and the Company on June 14, 2016, the Company undertakes not to incur any expenditure, debt or liability and not to provide loans or grants for the purposes that do not relate to the main activity of the Company, that is production of the energy.

In our opinion, during the year ended December 31, 2018, the Company has maintained this requisite.

June 03, 2019

"BDO Armenia" CJSC


Vahagn Sahakyan
Director




Karine Chilingaryan
Auditor

YEREVAN THERMAL POWER CENTRE CJSC
Statement of Financial Position
For the year ended 31 December 2018

	Note	31.12.2018 AMD'000	31.12.2017 AMD'000
Assets			
Non-current assets			
Property, plant and equipment	4	130,617,644	129,828,187
Intangible assets		9,865	13,532
Deferred tax assets	5	1,745,289	2,764,291
Non-current financial assets		-	24,288
		132,372,798	132,630,298
Current assets			
Inventories	6	7,064,124	5,484,273
Trade and other receivables	7	7,757,606	12,332,537
Cash	8	3,914,547	6,072,915
		18,736,277	23,889,725
TOTAL ASSETS		151,109,075	156,520,023
EQUITY AND LIABILITIES			
Equity			
Share capital	9.1	1,852,515	10,424,652
Paid-in-capital	9.2	11,264,365	2,692,828
Revaluation reserve	9.4	8,126,425	8,739,014
Accumulated loss		(19,348,969)	(20,002,418)
		1,894,936	1,854,076
Non-current liabilities			
Loans and borrowings	10	115,060,876	110,127,739
Grants related to assets		-	32,289
		115,060,876	110,160,028
Current liabilities			
Loans and borrowings	10	9,900,731	11,712,999
Grants related to income		-	411,828
Trade and other payables	11	24,252,532	32,381,092
		34,153,263	44,505,919
TOTAL EQUITY AND LIABILITIES		151,109,075	156,520,023

The financial statements were approved and signed on behalf of the Company management on June 03, 2019. The accompanying notes form an integral part of the financial statements.

Sasun Khachatryan
Director

Garri Akhoyan
Head of accounting service

YEREVAN THERMAL POWER CENTRE CJSC
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Note	2018 AMD'000	2017 AMD'000
Revenue	12	94,238,252	70,897,868
Cost of sales	13	(87,065,390)	(63,695,929)
Gross profit		7,172,862	7,201,939
Other income		705,240	76,539
Administrative expenses	14	(911,980)	(563,976)
Other expenses	15	(3,400,703)	(1,330,655)
Results from operating activities		3,565,419	5,383,847
Financial income	16	574,458	348,910
Financial costs	16	(1,114,075)	(1,221,844)
Impairment of financial assets		(59,582)	(8,457,039)
Impairment of PPE		-	(86,606)
Foreign currency exchange gain/(loss), net	17	(1,907,110)	(3,855,641)
Gain/(loss) from disposal of non-current assets, net		752	58,818
Gain/ (loss) before tax		1,059,862	(7,829,555)
Income tax (expense)/ reimbursement	18	(1,019,002)	706,234
Gain / (loss) for the year		40,860	(7,123,321)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Net increase/(decrease) from PPE revaluation		-	(1,810,608)
Tax consequence of PPE revaluation		-	362,122
Other comprehensive income for the year		40,860	(1,448,486)
Total comprehensive result for the year		40,860	(8,571,807)

The financial statements were approved and signed on behalf of the Company management on June 03, 2019. The accompanying notes form an integral part of the financial statements.

Sasun Khachatryan
Director



Garri Akhoyan
Head of accounting service

YEREVAN THERMAL POWER CENTRE CJSC
Statement of Changes in Equity
For the year ended 31 December 2018

	Share capital	Paid-in- capital	Revaluation reserve	Accumulated Loss	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Balance as of January 1, 2017	12,047,679	1,069,801	10,775,254	(13,466,851)	10,425,883
Total loss for the year	-	-	-	(7,123,321)	(7,123,321)
Increase from PPE revaluation	-	-	(1,448,486)	-	(1,448,486)
Decrease of shares nominal value	(1,623,027)	1,623,027	-	-	-
Transfer from revaluation reserve	-	-	(587,754)	587,754	-
Balance as of December 31, 2017	10,424,652	2,692,828	8,739,014	(20,002,418)	1,854,076
Income for the year	-	-	-	40,860	40,860
Increase from PPE revaluation	-	-	-	-	-
Decrease of shares nominal value	(8,572,037)	8,572,037	-	-	-
Transfer from revaluation reserve	-	-	(612,589)	612,589	-
Balance as of December 31, 2018	1,852,615	11,264,865	8,126,425	(19,348,969)	1,894,936

The financial statements were approved and signed on behalf of the Company management on June 03, 2019. The accompanying notes form an integral part of the financial statements.

Sasun Khachatryan
Director



Garri Akhoyan
Head of accounting service

YEREVAN THERMAL POWER CENTRE CJSC
Statement of cash flows
For the year ended 31 December 2018

	2018 AMD'000	2017 AMD'000
<i>Cash flows from operating activities</i>		
Cash received from sales	65,751,619	51,727,009
Cash paid to suppliers	(51,323,187)	(39,163,283)
Cash paid to employees	(559,456)	(528,732)
Taxes paid	(602,374)	(1,288,088)
<i>Net cash flows from operating activities</i>	<i>13,266,602</i>	<i>10,746,906</i>
<i>Cash flows from investing activities</i>		
Repayment of provided borrowings	24,288	-
Interest income on deposits	574,458	348,910
Payments on PPE acquisition	(15,703,481)	(2,513,550)
Proceeds from sale of PPE	1,740	347,805
Payments on intangible assets acquisition	(1,711)	-
<i>Net cash flows from investing activities</i>	<i>(15,104,706)</i>	<i>(1,816,835)</i>
<i>Cash flows from financing activities</i>		
Proceeds from loans and borrowings	7,086,865	7,156,398
Repayment of loans and borrowings	(6,059,095)	(10,202,002)
Interest paid	(1,272,936)	(1,279,042)
<i>Net cash flows from financing activities</i>	<i>(245,166)</i>	<i>(4,324,646)</i>
<i>Total net cash flows</i>	<i>(2,083,270)</i>	<i>4,605,425</i>
Effect on cash from conversions	(37,990)	(13,403)
Exchange difference on cash	(37,103)	19,498
<i>Cash at the beginning of the year</i>	<i>6,072,915</i>	<i>1,461,395</i>
<i>Cash at the end of the year</i>	<i>3,914,547</i>	<i>6,072,915</i>

The financial statements were approved and signed on behalf of the Company management on June 03, 2019. The accompanying notes form an integral part of the financial statements.

Sasun Khachatryan
Director



Garri Akhoyan
Head of accounting service

YEREVAN THERMAL POWER CENTRE CJSC
Index to notes forming part of the financial statements
For the year ended 31 December 2018

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YEREVAN THERMAL POWER CENTRE CJSC
Notes forming part of the financial statements
For the year ended 31 December 2018

1. General Information

1.1. The Company

"Yerevan TPC" enterprise was established in 1963. In 1997 "Yerevan Thermal Power Centre" state closed joint-stock company (the "Company") was founded.

The Company's main activities include:

- production and sale of electrical and thermal energy;
- Import and export of natural gas and electricity.

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

First one of the seven turbine installations of Yerevan TPP with 50MW capacity was commissioned in 1963, while the last one in 1967.

Being commissioned more than 40 years ago the units and auxiliary equipment of the power plant have undergone a regular tear and wear and became obsolescent by exhausting their normative operating resource, which naturally resulted in significant dropping of the operation reliability and the efficiency of generation of the electrical and heat energy by the power plant.

Ministry of Energy and Natural Resources of the Republic of Armenia and the Company commenced the reconstruction program of Yerevan TPC by constructing a new state-of-the-art combined cycle power unit with natural gas firing. The loan agreement on implementation of "Yerevan Combined Cycle Co-generation Power Plant Project" was signed on March 29, 2005 between the Government of the Republic of Armenia (RA) and Japan International Cooperation Agency (JICA)). Based on the said agreement the JICA provided loan to the Government of the RA with preferential terms by extending 26,409 million Japanese Yens. Construction of the new plant started in 2006 and was completed in 2010; the new plant has been put in use in April 2010.

Owing to the realization of new technology the efficiency of the power plant was increased to almost 70%, levels of emissions were reduced significantly, as well as consumption quantity of drinking quality water by more than 3 times.

The average number of employees of the Company during 2018 was 230 employees (2017: 234 employees).

The change of Charter of the Company has been registered in state register on September 08, 2006, registration number is 269.070.00255, and certificate number is 01 A 004948.

Registration address of the Company is 3 Building, Arin-Berdi St. 3rd Lane, Yerevan, 0053, RA.

Tax payer code is 02205028.

1.2 Share Capital

Republic of Armenia is the sole Shareholder in reporting and prior years.

Share capital of the Company as at 31.12.2018 was 1,852,615 thousand drams (as at 31.12.2017: 10,424,652 thousand drams). Share capital of the Company consists of 2,273,147 pieces of nominal registered shares with nominal value of 815 drams. (as at 31.12.2017: 4,586 drams).

YEREVAN THERMAL POWER CENTRE CJSC
Notes forming part of the financial statements
For the year ended 31 December 2018

2. Basis of preparation

2.1 Basis of preparation and presentation of Financial Statements

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards (hereinafter - IFRSs). IFRSs are Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise:

- International Financial Reporting Standards;
- International Accounting Standards;
- International Financial Reporting Interpretations Committee (IFRIC) Interpretations; and
- Standing Interpretations Committee (SIC) Interpretations.

The principal accounting policies applied in the preparation of these financial statements are set in note 3. These policies have been consistently applied for all periods presented, unless otherwise set forth herein.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.4.

2.2 Changes in accounting policies

New standards, interpretations and amendments effective from 1 January 2018

- IFRS 9 Financial Instruments
- IFRS 15 - Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

None of the above mentioned had significant effect on the Company's financial statements.

YEREVAN THERMAL POWER CENTRE CJSC
Notes forming part of the financial statements
For the year ended 31 December 2018

2.3 New standards, interpretations and amendments published, not yet effective

The following new standards, interpretations and amendments that are not yet effective and have not been applied early in the financial statements will have or may have an impact on the Company's future financial statements.

#	Pronouncement	Nature of the impending change in accounting policy on adoption of the pronouncement	Date by which application of the IFRS is required	Date Company plans to apply the pronouncement initially	Impact of initial application on financial statements
1	IFRS 16 Leases (2017)	<i>Under IFRS 16 a lessee recognizes a right-of-use assets and a lease liability. The right-of-use assets is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of lease payments payable over the lease term.</i>	January 2019 Early adoption permitted	January 2019	Material impact is not envisaged
2	IFRIC 23 Uncertainty over Income Tax Treatments	<i>The interpretation addresses how to determine the taxable profit(loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over treatment under IAS 12, Income Tax for the purpose of accounting for income taxes.</i>	January 2019 Early adoption permitted	January 2019	Material impact is not envisaged

3. Summary of Accounting Policies

3.1 Functional and presentation currency

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

3.2 Basis for measurement

The financial statements are prepared on the historical cost basis, except the following items:

- PPE measured at revaluated amounts (note 4).

3.3 Going concern

The company has experienced financial difficulties in the last few years, as a result of which the cumulated losses amounted to AMD 19,348,969 thousand (as at 31.12.2017: AMD 20,002,418 thousand).

Management of the Company develops and consistently performs financial recovery program, permanent control and management of liquidity. The Company's 2019 year business plan is based on the following:

- Since 2016, high interest rate commercial loans of the Company and the majority of the significant debts to the gas supplier were settled within the scope of the "Energy Sector Financial Recovery Program" 2016-2017 implemented in accordance with the IBRD 8615-AM Loan Agreement; as well as the reconstruction of 220/110/35 kV substation will be finished in 2018. The above-mentioned 30 million low interest rate loan repayment period is 25 years (14.5 years grace period).
- The Load bearing schedule is approved by the RoA Public Services Regulatory Commission ("PSRC") in December 2018 and agreed with the Electric Power System Operator (EAO).
- Industrial and technical indicators will significantly improve as a result of the reconstruction of the power unit, new substation and gas-steam cycle turbine. The company will invest 3,000,000 thousand AMD bank deposit available as of 31.12.2018 and will not involve additional commercial loans.
- According to the RoA Government Decisions on Nov 2017 and July 2018, in the scope of investment programs the company has used tax relief from paying VAT of 2,128,092 thousand AMD (of which 2,074,518 thousand AMD according to 192-N Law of RA TL from 23.11.2017 indemnifies for VAT payment) and custom duty of 540,512 thousand AMD on imported equipment.
- As a result of modification of GT13E2 MXL to MXL2 mode, in 2018 the Company has provided the following technical efficiency:
 - ✓ Reduction of specific costs of fuel, saving up to 6.4 g/kWh
 - ✓ Increase of installed power capacity of gas turbine by 8,6 MW
 - ✓ power block's useful delivery growth by 1,2%
 - ✓ prolongation of time between overhauls correspondingly A1-12000, B-24000, A2-36000.

After making assessments, the Company's management has a reasonable expectation that the Company is able to continue its operational existence in the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

3.4 Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRSs. Actual results may differ from those estimates.

3.4.1 Judgments having significant impact on the application of accounting policy

The following are the significant judgments made by the Company's management for applying the Company's accounting policies that have material impact on the amounts recognized in the financial statements:

- a) Revenue recognition - Principal or agent? (note 15.g)

3.4.2 Estimates and assumptions having significant impact on the application of accounting policy

The following are the significant estimates and assumptions made by the Company's management for applying the Company's accounting policies that have material impact on the amounts recognized in the financial statements:

- a) Fair value measurement - Note 4.d and 26

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

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

- b) Useful lives of property, plant and equipment - Notes 4.f

Useful lives of the property, plant and equipment has been estimated based on its best estimate of the economic lives of the assets as well as its intentions to continue exploitation of the those assets. Management believes that estimated useful lives of the property, plant and equipment are not materially different from economical lives of those assets. If actual useful lives of property, plant and equipment are different from estimates and financial statements may be materially different.

- c) Impairment of trade receivables and other financial assets - Notes 6 and 8

The Company regularly reviews its financial assets to access impairment. As of 31 December 2018, the carrying amount of the Company's impaired receivables was 442,327 thousand drams (31 December 2017: 404,575 thousand drams), and carrying amount of other financial assets 219,234

thousand drams (31 December 2017: 92,268 thousand drams).

The Company Management uses judgment to estimate the amount of any impairment loss in cases where a customer or a borrower are in financial difficulties estimating the changes of future cash flows. If the actual recoverability of receivables and other financial assets varies from the estimated, the carrying amounts of those assets may be different.

3.5 Foreign currency transactions

Transactions entered into by Company in a currency other than the functional currency, AMD, are recorded at the rates ruling when the transactions occur. Settlement rate established by the Central Bank of the Republic of Armenia is taken as a currency.

Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

3.6 Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such property, plant and equipment is recognized in other comprehensive income (except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged) and is shown as revaluation reserve in shareholder's equity. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

The revaluation surplus is transferred to the accumulated profit as the asset is used by the Company. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profit.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

3.7 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

3.8 Inventories

Costs comprise charges incurred in bringing inventory to its present location and condition.

The cost of inventories of items that are ordinarily interchangeable shall be assigned by using the weighted average principle.

The cost of inventories of items that are not ordinarily interchangeable, particularly the cost of cars, shall be assigned by using specific identification of their individual costs.

Inventories are valued at the lower of cost or net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

3.9 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred to third parties.

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

Financial assets

The Company's financial assets are financial assets measured at amortized cost. These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

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

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised.

For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

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

Financial liabilities

The Company's financial liabilities include loans and borrowings as well as trade and other payables. The Company's financial liabilities by categories are disclosed in Note 20.

Loans and borrowings are initially recognized at fair value, less transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

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

3.10 Impairment

At each reporting date, property and equipment, and intangibles assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3.11 Equity

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

Revaluation reserve comprises gains and losses from the revaluation of property, plant and equipment.

Dividends are recognized as a liability in the period in which they are declared.

3.13 Short-term employee benefits

Short-term employee benefits include wages, salaries short-term compensated absences (such as paid annual leave and paid sick leave), and bonuses.

3.14 Related Party Disclosures

The Company is a government-related entity since it is controlled by the Republic of Armenia, the sole shareholder of the Company. The Company applies IAS 24 Related Parties, exclusion of a standard for disclosing information on transactions with government-related parties. Therefore, the financial statements disclose the effect of a transaction with the related parties:

- a) the nature and amount of each significant separately-held transaction
- b) quantitative and qualitative information on remaining transactions, their size, which are significant together, but not separate.

The company reveals key management personnel:

- benefits: short-term or post-employment,
- termination benefits,
- share-based payments.

3.15 Revenue recognition

Revenue of the Company derives from sale of electricity, natural gas and provision of capacity, as well as exchange of electricity and gas.

Performance obligation and timing of revenue recognition

The majority of the company's revenue arises from the sale of electricity, the revenue earned on which is recognized at the moment when the control is transferred to the customer. The control transfer is mainly carried out when the electricity is delivered to the customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the Company no longer has physical possession, usually will have a present right to payment and retains none of the significant risks and rewards of the goods in question.

Determining the transaction price

Company's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices.

Allocating amounts to performance obligations

For most of the contracts, the unit price is fixed for each item.

Practical Exemptions

The Company has taken advantage of the practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less; and
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less.

Exchange of goods

When goods are exchanged or swapped for goods which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue.

When goods are sold in exchange for dissimilar goods, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods received cannot be measured reliably, the revenue is measured at the fair value of the goods given up, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

3.16 Income tax

Income tax on current year profit or loss consists of current tax and deferred tax.

Current tax is the amount of income taxes payable/(refundable) in respect of the taxable profit/(loss) for a period. Current tax is recognized in the net profit or loss of the period.

Deferred taxes (deferred tax liabilities and deferred tax assets) of the Company are conditioned by carry-forward of temporary differences (taxable and deductible temporary differences), and carry-forward of unused tax losses.

Deferred taxes arising as a result of temporary differences are calculated using balance sheet liability method, based on the temporary differences between the carrying amounts of assets and liabilities used for preparation of financial statements, and amounts used for taxation purposes (tax base).

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

3.17 Changes in accounting policies, changes in accounting estimates and material errors

3.17.1 Changes in accounting policies

The change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS. In the absence of transitional provisions the changes in accounting policies are applied retrospectively, as long as it is practicable. In the statement for reporting period each resulting adjustment is stated as adjustment of retained earnings opening balance. The comparative information is restated, as long as it is practicable.

3.17.2 Changes in accounting estimates

The effect of a change in an accounting estimate shall be recognized by including it in profit or loss in:

- a) the period of the change, if the change affects that period only; or
- b) the period of the change and future periods, if the change affects both.

3.17.3 Prior period errors

Prior Period Errors are omissions from, and misstatements in, prior period financial statements resulting from the failure to use, or the misuse of, reliable information that:

- a) was available when financial statements for those periods were authorized for issue; and
- b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Prior period material errors are corrected retrospectively after their discovery by:

- a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

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4. Property, plant and equipment

	Buildings and constructio ns	Land	Capital constructi on-in- process	Transmissio n devices	Substation constructio n-in- process	Spare parts subject to installation	Power plants, equipment	Vehicles	Fixture, fittings and other	Total
Cost or Revalued amount										
As at January 1, 2017	23,789,404	5,565,000	1,620,791	8,139,556	-	-	134,510,851	223,787	1,658,419	175,507,808
Additions	26,095	-	-	28,761	3,044,190	10,527,616	37,202	63,834	60,023	13,787,721
Deductions	(23,378)	(176,667)	-	(1,120)	-	(845,539)	(74,947)	(31,835)	(24,150)	(1,177,636)
Reclassification	1,850,575	-	59,548	-	-	-	-	-	-	1,910,123
As at December 31, 2017	25,642,696	5,388,333	1,680,339	8,167,197	3,044,190	9,682,077	134,473,106	255,786	1,694,292	190,028,016
Additions	19,425	-	-	3,862,935	-	-	4,618,574	60,349	13,139	8,574,422
Deductions	-	-	-	-	-	-	(969,000)	(1,247)	-	(970,247)
Reclassification	(1,063,526)	-	-	6,318,482	(3,044,190)	(9,682,077)	7,475,375	-	(4,064)	-
As at December 31, 2018	24,598,595	5,388,333	1,680,339	18,348,614	-	-	145,598,055	314,888	1,703,367	197,632,191
Accumulated depreciation, Revaluation effect, impairment losses										
As at January 1, 2017	3,698,123	-	1,558,463	4,073,590	-	-	42,550,224	164,720	382,693	52,427,813
Additions	680,995	-	-	671,156	-	-	2,588,647	41,645	97,525	4,079,968
Deductions	(3,299)	-	-	(1,064)	-	-	(62,971)	(30,603)	(17,352)	(115,289)
Reclassification	-	-	-	1,064	-	-	(1,064)	-	-	-
Revaluation effect	(4,375,819)	2,327,435	-	2,160,555	-	-	3,661,721	(53,161)	86,606	3,807,337
As at December 31, 2017	-	2,327,435	1,558,463	6,905,301	-	-	48,736,557	122,601	549,472	60,199,829
Additions	3,573,857	-	-	138,909	-	-	2,984,178	14,442	103,840	6,815,226
Deductions	-	-	-	-	-	-	-	(508)	-	(508)
As at December 31, 2018	3,573,857	2,327,435	1,558,463	7,044,210	-	-	51,720,735	136,535	653,312	67,014,547
Balance value										
As at January 1, 2017	20,091,281	5,565,000	62,328	4,065,966	-	-	91,960,627	59,067	1,275,726	123,079,995
As at December 31, 2017	25,642,696	3,060,898	121,876	1,261,896	3,044,190	9,682,077	85,736,549	133,185	1,144,820	129,828,187
As at December 31, 2018	21,024,738	3,060,898	121,876	11,304,404	-	-	93,877,320	178,353	1,050,055	130,617,644

a) PPE additions consist

	AMD'000
Capital construction	2,306,990
Capital repairs	5,995,639
Purchased from suppliers	78,001
Other proceeds	193,792
	8,574,422

The Company implements reconstruction of the 220/110/35 kW Substation under the Credit Agreement No 8495-AM, signed on April 8, 2015, between the RoA and the International Bank for Reconstruction and Development (IBRD) within the scope of the "Electricity Transmission Network Improvement". The goal of the project is to improve and strengthen the power transmission network. The principal direction of the project, implemented by the Company, is the reconstruction of 220/110/35 kW substation, including complete replacement of basic equipment, installation of control and data acquisition system, construction of a new building for management rooms and transfer and reunion of air lines required for power supply from the substation.

The 220/110/35 kW substation of the Company, which was built in 1962, working for more than 50 years, has physically and technologically obsoleted, and has high risk of disruption, so it will be restored within the scope of the project. The substation is the only connecting link between a steam-cycle power block and an energy system, and consequently the reliability of the substation is due to the uninterrupted operation of the power unit and the uninterrupted transmission of electricity to the power system.

As a result, the implementation of the project will contribute to the reduction of emergency situations and improvement of the power transmission network and system reliability.

Funding sources are:

- IBRD Loans: 22,305,514 USD
- The co-financing amount provided by the Government of Armenia: 5,557,500 USD.

Within the scope of the program, the co-financing provided by the state budget is provided to the Company as a loan, the repayment of which is envisaged in parallel with repayment of the loan attracted from external sources.

b) Power plants

As described in note 1, the new power plant unit with 205MW nominal capacity and 103GCal/h heat export capacity is exploited at the Company since year 2010 (Not. 1). The carrying amount of the unit, including its buildings and constructions as of December 31, 2018 is 111,809,248 thousand AMD (December 31, 2017: 102,287,917 thousand AMD) (point d.2).

In 2018, installation and commissioning of the 220/110/35 kW substation started, with the carrying value of 9,226,289 thousand AMD as of December 31, 2018 (point d.2).

Included in the property, plant and equipment is the old power plant at the carrying/revaluated amount of 6,521,209 thousand AMD as of December 31, 2018 (December 31, 2017: 9,960,453 thousand AMD) (point d.1).

Exploitation of this power plant has been suspended since exploitation of the new plant, and the latter has been held as a reserve capacity; as well as observes it's disposal. Being commissioned more than 40 years ago the units and auxiliary equipment of the power plant have undergone a regular tear and wear and became obsolescent by exhausting their normative operating resource, which naturally resulted in significant dropping of the operation reliability and the efficiency of generation of the electrical and heat energy by the power plant.

c) Limitations on PPE

Property, plant and equipment in amount of 10,376,438 thousand drams are pledged as a security for loans and borrowings as of December 31, 2018 (as at December 31, 2017: 10,383,945 thousand AMD).

d) Fair value Measurement - Revaluation of PPE

The Company's land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The fair value measurement of the Company's land and plant as at 31 December 2017 was performed by "Artin Enterprise" LTD, an independent valuer not related to the Company. The firm and its valuers have related qualifications (CIPS, CCIM, NAR) and are member of international valuers associations such as RVU (Russia).

The fair value of the land was determined based on the market comparable approach that reflects the recent transaction prices for similar properties.

The fair value of buildings, such as those related to the new power plant build in year 2010, that will be continued to be used for ordinary activities of the Company was determined using the cost approach that reflects the cost to a market participant to acquire or construct assets of comparable utility and age, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic obsolescence.

The fair value of equipment that will be continued to be used, such as those installed at new power plant, was determined using the market value of identical asset adjusted for obsolescence.

The fair value of buildings and equipment that will be disposed or dismantled, such as those related to the old power plant build in year 1963, was determined based on market value of disposed property or any valuable dismantled materials, less cost of dismantling and selling.

Due to their unique nature, the fair value of revalued land, building and equipment are classified into Level 3 of the fair value hierarchy as at reporting date.

If the property, plant and equipment were presented at historical cost, their carrying amounts would be 120,459,614 thousand drams (as of December 31, 2017, 104,429,452 thousand drams).

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e.1) Old power plant as of 31.12.2018

Thousand AMD

Class of PPE	Historical cost	Accumulated depreciation, impairment loss	Carrying amount
Buildings and constructions	5,719,799	(2,863,243)	2,856,556
Transmission devices	1,281,957	(97,620)	1,184,337
Machinery and equipment	2,372,504	(230,828)	2,141,676
Vehicles	187,352	(12,701)	174,651
Fixture and fittings, other PPE	94,097	(51,984)	42,113
Capital construction-in-process	1,680,339	(1,558,463)	121,876
	11,336,048	(4,814,839)	6,521,209
Land	2,569,978	-	2,569,978
	13,906,025	(4,814,839)	9,091,187

e.2) New power plant as of 31.12.2018

Thousand AMD

Class of PPE	Historical revalued cost	Accumulated depreciation, impairment loss	Carrying amount
Buildings and constructions	18,890,587	(722,405)	18,168,182
Transmission devices	921,801	(28,024)	893,777
Machinery and equipment	94,488,994	(2,753,350)	91,735,644
Vehicles	4,935	(1,234)	3,701
Fixture and fittings, other PPE	1,296,604	(288,660)	1,007,944
	115,602,921	(3,793,673)	111,809,248
New power plant	9,239,556	(13,267)	9,226,289
Land	490,920	-	490,920
	125,333,396	(3,806,940)	121,526,457

f) PPE at zero carrying amount

The cost of an item of property, plant and equipment with carrying value of zero AMD as of December 31, 2018 is 1,765,772 thousand drams (December 31, 2017: 1,513,123 thousand drams).

g) PPE depreciation

Depreciation is charged to profit or loss on a straight line basis over the estimated useful lives of the individual assets. Calculation of depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings and constructions	- 20-40 years
Power plants	- 40 years
Transmission devices	- 5-40 years
Machinery and equipment	- 5-40 years
Vehicles	- 5 years
Fixture and fittings	- 5-40 years
Other	- 2-10 years.

Depreciation expense has been charged as follows:

	2018 AMD'000	2017 AMD'000
Cost of sales (note 13)	3,324,950	3,279,910
Administrative expenses (note 14)	311,305	59,405
Other expenses (note 16)	3,178,971	740,653
	6,815,226	4,079,968

5. Deferred tax assets

	31.12.2018 AMD'000	31.12.2017 AMD'000
<i>Opening balance</i>	2,764,291	1,695,935
Recognized in profit or loss	(1,019,002)	706,234
Recognized in equity	-	362,122
<i>Closing balance</i>	1,745,289	2,764,291

Deferred tax assets have been recognized for tax losses and temporary differences to the extent that the Company management expects they are recoverable.

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Deferred income taxes for the year ended December 31, 2018 can be summarized as follows:

	January 1, 2018	Recognized in profit or loss	Recognized in equity	December 31, 2018
<i>Deferred tax assets</i>				
Non-current financial assets	2,242,192	(31,054)	-	2,211,138
Trade and other receivables	99,369	32,943	-	132,312
Trade and other payables	26,196	(26,196)	-	
Impairment of inventory	-		-	
Tax loss	2,156,945	(1,155,542)	-	1,001,403
Provision on employee benefits	1,036	7,700	-	8,736
	<u>4,525,738</u>	<u>(1,172,149)</u>	<u>-</u>	<u>3,353,589</u>
<i>Deferred tax liabilities</i>				
Property, plant and equipment	(1,761,447)	153,147	-	(1,608,300)
	<u>1,761,447</u>	<u>(153,147)</u>	<u>-</u>	<u>(1,608,300)</u>
<i>Net provision - deferred tax assets</i>	<u>2,764,291</u>	<u>(1,019,002)</u>	<u>-</u>	<u>1,745,289</u>

Deferred income taxes for the year ended December 31, 2017 can be summarized as follows:

	January 1, 2017	Recognized in profit or loss	Recognized in equity	December 31, 2017
<i>Deferred tax assets</i>				
Non-current Financial assets	650,663	1,591,529	-	2,242,192
Trade and other receivables	310	99,059	-	99,369
Trade and other payables	26,196	-	-	26,196
Impairment of inventory	2,501	(2,501)	-	-
Tax loss	3,682,045	(1,525,100)	-	2,156,945
Provision on employee benefits	-	1,036	-	1,036
	<u>4,361,715</u>	<u>164,023</u>	<u>-</u>	<u>4,525,738</u>
<i>Deferred tax liabilities</i>				
Property, plant and equipment	2,665,780	(542,211)	(362,122)	1,761,447
	<u>2,665,780</u>	<u>(542,211)</u>	<u>(362,122)</u>	<u>1,761,447</u>
<i>Net position - deferred tax assets</i>	<u>1,695,935</u>	<u>706,234</u>	<u>362,122</u>	<u>2,764,291</u>

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6. Inventories

	31.12.2018	000'AMD 31.12.2017
Spare parts	4,879,835	4,373,004
Materials	1,041,127	950,659
Cheap materials for sale	969,000	-
Construction materials	79,235	77,902
Other	94,927	82,708
	7,064,124	5,484,273

7. Trade and other receivables

	31.12.2018	000'AMD 31.12.2017
Trade receivables	5,907,657	6,862,819
Allowances for doubtful trade receivables (c)	(442,327)	(404,575)
Total financial assets other than cash and cash equivalents at amortized cost	5,465,330	6,458,244
Provided prepayments	118,452	1,563,470
Allowances for doubtful trade payables	(89,514)	(92,268)
Net provided prepayments	28,938	1,471,202
On taxes	129,854	2,456,812
Deferred taxes on VAT	2,131,467	1,945,748
Other	131,737	531
Allowances for doubtful trade payables	(129,720)	-
	7,757,606	12,332,537

- a) The fair value of trade and other receivables classified as loans and receivables does not differ materially from the carrying amount.
- b) The Company's receivables are not ensured with collateral and other guarantees.
- c) As at 31 December, 2018 trade receivables amounting to 442, 327 thousand drams (404,575 thousand drams as of December 31, 2017) are past due and fully impaired. At the reporting date, past due receivables refer to "Artsakh Energo" CJSC. The main factor that the management considers these past due amounts impaired is that these consumers are unlikely to be able to repay those debts over a certain period of time. In case of default within 30 days, the receivables are considered to be past due. At the end of the previous year, balances of past due debts have not been settled. The maturity of impaired receivables is more than one year.

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8. Cash

	31.12.2018 AMD'000	31.12.2017 AMD'000
Bank balances (AMD)	3,308,161	5,622,797
Bank balances (foreign currency)	606,169	450,002
Cash on desk (AMD)	217	116
	3,914,547	6,072,915

9. Equity

9.1 Share capital

In the reporting year and the previous year, the number of shares of the Company has remained unchanged - 2,273,147. As of 31.12.2018 the nominal value of one share of the Company is set to 815 AMD according to the RoA Government Decree No. 884-A dated 09.08.2018 on the reduction of the share capital of the Company. Prior to that date the nominal value of one share of the Company was 4,586 drams.

9.2 Paid-in-capital

	2018 AMD'000	2017 AMD'000
<i>Opening balance</i>	2,692,828	1,069,801
Increase of paid-in-capital	8,572,037	1,623,027
Decrease of paid-in-capital	-	-
<i>Closing balance</i>	11,264,865	2,692,828

In the reporting year paid-in-capital increase is due to reduction of shares nominal value (Note 9.1).

9.3 Capital reserve

In accordance with the law "On joint stock companies" and the Company's Charter the Company's distributable reserves are limited to the balance of retained earnings. According to legal requirements the Company is required to create a reserve from its retained earnings for an amount equal to 15% of its share capital. As at December 31, 2018 the Company has not retained earnings and has not created a reserve capital.

9.4 Revaluation reserve

The revaluation reserve arises on the revaluation of property, plant and equipment (4.d note).

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10.Loans and borrowings

	Current (a)		Non-current (b)	
	As at 31 December 2018 AMD'000	As at 31 December 2017 AMD'000	As at 31 December 2018 AMD'000	As at 31 December 2017 AMD'000
Secured loan from the Ministry of Finance (b)	5,307,241	4,948,543	115,060,876	110,127,739
Secured bank loans	-	2,170,966	-	-
Other borrowings (c)	4,593,490	4,593,490	-	-
	9,900,731	11,712,999	115,060,876	110,127,739

a) The fair value of loans and borrowings classified as financial liabilities at amortized cost does not significantly differ from the carrying amount.

b) As described in note 1, loan agreement on implementation of "Yerevan Combined Cycle Co-generation Power Plant Project" was signed on March 29, 2005 between the Government of the Republic of Armenia and Japan International Cooperation Agency (JICA). Based on the said agreement JICA provided an Official Development Assistance (ODA) loan to the Government of the Republic of Armenia with preferential terms: annual interest rate of 0.75% and 40 years of repayment period (including grace period of 10 years) by extending 24,409,000 thousand Japanese Yens. A sub loan agreement was concluded between the Ministry of Finance and the Company in March 2005 and June 2016 with the same terms.

Loans received by the RA Ministry of Finance have been provided by the Ministry of Finance with promissory notes.

c) Interest free borrowing from Vorotan HPPS, from which 4,164,300 thousand drams have been transferred to the Company based on the assignment agreement.

Refer to note 20 for more information about the Company's exposure to interest rate and foreign currency risks.

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10.1 Movement of loans and borrowings

Loans	As at 31.12.2017	During 31.12.2018				As at 31.12.2018
		Providing	Interest accrued	Exchange rate difference	Redemption	
Loan provided by the Ministry of Finance						
Yerevan Combined Cycle Co-generation Power Plant Project (JICA, ARM-P2)»	102,543,971	-	770,329	2,036,919	(4,605,479)	100,745,740
Power Sector Financial Recovery Program (IBRD 8615-AM)	9,068,185	285,343	303,040	(2,502)	(289,032)	9,365,034
Power Transmission Improvement Project (IBRD 8495-AM) (IBRD 8495-AM)	2,696,141	5,483,568	168,136	3,391	(144,590)	8,206,646
Power Transmission Improvement Project (IBRD 8495-AM) Co-financing	767,985	1,317,954	43,122	-	(78,364)	2,050,697
	115,076,282	7,086,865	1,284,627	2,037,808	(5,117,465)	120,368,117
Loans from commercial banks						-
USA	918,455	-	4,169	(6,458)	(916,166)	-
EUR	1,252,511	-	5,256	40,631	(1,298,398)	-
	2,170,966	-	9,425	34,173	(2,214,564)	-
Borrowings						
Vorotan HPPS	4,593,490	-	-	-	-	4,593,490
	4,593,490	-	-	-	-	4,593,490
Total	121,840,738	7,086,865	1,294,052	2,071,981	(7,332,029)	124,961,607

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11. Trade and other payables

	2018 AMD'000	2017 AMD'000
Trade payables	20,507,328	28,707,388
Other trade payables	3,500,000	3,500,000
Advances from costumers	68,000	120,000
Taxes and duties payable	121,483	24,291
Payables to employees	12,044	-
Other	43,677	29,413
	<u>24,252,532</u>	<u>32,381,092</u>

The fair value of trade and other payables classified as financial liabilities at amortized cost does not significantly differ from the carrying amount.

12. Revenue from contracts with customers

The Company has disaggregated revenue into various categories in the following table which is intended to depict the nature, amount, timing and uncertainty of revenue.

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The year ended 31.12.2018

	AMD'000					
	Sale of electricity (a)	Provision of capacity (b)	Sale of natural gas (c)	Exchange transaction, sale of electricity (d)	Exchange transaction, sale of natural gas (e)	Total
Geographical range						
RA territory	19,439,067	10,744,675	25,760,571	-	-	55,944,313
Abroad	37,176,575	-	1,090,917	26,447	-	38,293,939
	<u>56,615,642</u>	<u>10,744,675</u>	<u>26,851,488</u>	<u>26,447</u>	<u>-</u>	<u>94,238,252</u>
Product range						
Electricity	56,615,642	-	-	26,447	-	56,642,089
Gas	-	-	26,851,488	-	-	26,851,488
Provision of capacity	-	10,744,675	-	-	-	10,744,675
	<u>56,615,642</u>	<u>10,744,675</u>	<u>26,851,488</u>	<u>26,447</u>	<u>-</u>	<u>94,238,252</u>

The year ended 31.12.2017

	AMD'000					
	Sale of electricity (a)	Provision of capacity (b)	Sale of natural gas (c)	Exchange transaction, sale of electricity (d)	Exchange transaction, sale of natural gas (e)	Total
Geographical range						
RA territory	13,963,048	12,642,629	10,673,360	-	3,864,004	41,143,041
Abroad	29,741,150	-	-	13,677	-	29,754,827
	<u>43,704,198</u>	<u>12,642,629</u>	<u>10,673,360</u>	<u>13,677</u>	<u>3,864,004</u>	<u>70,897,868</u>
Product range						
Electricity	43,704,198	-	-	13,677	-	43,717,875
Gas	-	-	10,673,360	-	3,864,004	14,537,364
Provision of capacity	-	12,642,629	-	-	-	12,642,629
	<u>43,704,198</u>	<u>12,642,629</u>	<u>10,673,360</u>	<u>13,677</u>	<u>3,864,004</u>	<u>70,897,868</u>

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

Tariffs on the Company sale service of the electricity are set by Public Services Regulator Commission of the Republic of Armenia.

Electricity tariff (without VAT).

Application date	AMD/KWh
01.08.2015	18.500
01.08.2016	17.767
01.02.2017	15.460
01.02.2018	20.284
01.02.2019	17.015

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

Provision of capacity tariff (without VAT).

Application date	AMD/KWh-month
01.08.2015	3,564.11
01.08.2016	4,707.83
01.02.2017	5,102.30
01.02.2018	4,950.62
01.02.2019	4,656.47

c) Revenue from the sale of natural gas is recognized monthly based on the actual transferred amount.

According to the contract, the Company purchases gas in exchange for electricity with agreed volume coefficient.

At the same time, the company supplies part of gas received at the same point to third party, and uses remaining volume for production of electricity. The third party supplies electricity to the Company at the same point based on agreed another coefficient, which in turn the Company wholly transfers to the Gas Supplier.

The Company's management has made substantiated judgments to determine whether the Company is a principal or an agent in regard to these circumstances in terms of IFRS requirements. Taking into account that the Company is basically responsible for contract performance, the settlement of the contractual issues and the quality and adequacy of the supplied goods, the Company management has considered that the Company is a principal party within the scope of the transactions, so the revenue has been recognized on a gross basis.

d) Exchange transaction: Sale of electricity

Under the agreement, Yerevan TPC supplies electricity to a contracting party. Electricity supply is carried out for a certain period of time, which is conditioned by weather.

The Contractor Company, in accordance with the agreed procedure and extent, reimbursed Yerevan TPC with the corresponding volume of electricity.

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e) Exchange transaction: Sale of natural gas

According to the contract, Yerevan TPC provides some volume of natural gas to a contracting party at the gas distribution station owned by it.

Yerevan TPC provides only the residual amount of acquired and sold natural gas.

The contracting party provides the corresponding amount of natural gas to Yerevan TPC in accordance with the agreed terms and amounts at the corresponding gas distribution station.

13. Cost of sales

	2018 AMD'000	2017 AMD'000
Cost of gas and other materials used in production	26,967,086	30,459,540
Cost of sold gas	27,148,755	14,441,392
Cost of sold electricity	27,250,452	13,071,555
Depreciation expenses	3,324,950	3,279,910
Power and gas transmission services	1,898,311	2,088,001
Employee remuneration	475,836	355,531
	87,065,390	63,695,929

The year ended 31.12.2018

	Sale of electricity in the territory of RA	Export of electricity	Sale of natural gas in the territory of RA	Export of natural gas	Total
Cost of gas and other materials used in production	18,823,402	8,143,684	-		26,967,086
Cost of sold gas	-	-	25,828,277	1,320,478	27,148,755
Cost of sold electricity	500,503	26,749,949	-	-	27,250,452
Depreciation expenses	2,320,861	1,004,089	-	-	3,324,950
Power and gas transmission services	1,325,048	573,263	-	-	1,898,311
Employee remuneration	332,140	143,696	-	-	475,836
	23,301,954	36,614,681	25,828,277	1,320,478	87,065,390

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The year ended 31.12.2017

	Sale of electricity in the territory of RA	Export of electricity	Sale of natural gas in the territory of RA	Export of natural gas
Cost of gas and other materials used in production	15,908,795	14,550,744	-	30,459,540
Cost of sold gas			14,441,392	14,441,392
Cost of sold electricity	1,188,016	11,883,540	-	13,071,555
Depreciation expenses	1,713,073	1,566,837	-	3,279,910
Power and gas transmission services	980,645	1,107,356	-	2,088,001
Employee remuneration	185,691	169,840	-	355,531
	19,976,220	29,278,317	14,441,392	63,695,929

14. Administrative expenses

	2018	AMD'000 2017
Employee remuneration	312,505	268,336
Audit and consulting	74,612	109,539
Non refundable taxes and duties	116,125	75,741
Depreciation and amortization expense	317,390	59,405
Office and utility expenses	39,797	18,082
Business trips and hospitality costs	21,851	7,010
Bank charges	2,964	3,109
Other	26,736	22,754
	911,980	563,976

15. Other expenses

	2018	AMD'000 2017
Depreciation	3,178,971	740,653
Fines and penalties	251	140,572
Costs of security	130,355	130,355
Disposal, write-off of inventories	5,447	59,678
Currency conversion costs	38,972	13,861
Valuer's fee	17,749	20,608
Provision for possible income tax	12,983	1,442
Other	15,975	223,486
	3,400,703	1,330,655

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16. Finance income and costs

	2018	AMD'000 2017
Interest income on deposits in trade banks	574,458	348,910
Interest expenses on loan from the Ministry of Finance	(1,104,650)	(1,022,837)
Interest expenses on bank loans	(9,425)	(199,007)
	(539,617)	(872,934)

17. Foreign currency exchange gain/(loss), net

	2018	AMD'000 2017
Regarding to receivables	201,979	279,119
Regarding to loans	(2,071,981)	(4,121,356)
Regarding to cash	(37,108)	(13,404)
	(1,907,110)	(3,855,641)

18. Income tax

A 20% income tax rate is applied on the Company's taxable profit in accordance with the Law "On Income tax" of the Republic of Armenia (2017 - 20%).

	2018 AMD'000	2017 AMD'000
Income tax expense/reimbursement	1,019,002	(706,234)
	1,019,002	(706,234)

Reconciliation of effective tax rate is as follows:

	2018		2017	
	AMD'000	%	AMD'000	%
Gain/(loss) before taxation	1,059,862		(7,829,555)	
Income tax on defined rate	211,972	20	(1,565,911)	20
Tax consequence of exchange loss	381,422	36	771,128	(10)
Tax consequence of financial asset's impairment	-	-	1,691,408	(22)
Property, plant and equipment	571,918	54	17,321	(0.2)
Revenue from grants related to assets	(116,340)	(11)	-	-
Tax consequence of loss of previous year	-	-	(1,525,100)	19
Tax consequence of other non-deductible expenses/(non-taxable income), net	(29,970)	(3)	(95,080)	1
Income tax expense/(reimbursement) and effective tax rate	1,019,002	96	(706,234)	9

19. Related party transactions

The Government of the Republic of Armenia owns 100 % of the Company's shares, hence all state owned enterprises are considered related to the Company. The Company's related parties include also key management.

19.1 Control

The company is controlled by the Government of the Republic of Armenia represented by the Ministry of Energy and Natural Resources.

19.2 Transactions with related parties

The following transactions between the related parties of the Company were made during the reporting year:

	Year ended 31, December, 2018	Year ended 31, December, 2018
Shareholders		
Accrual of interest expense	1,284,627	1,071,681
Redemption of interest accrued	1,251,100	1,058,762
Redemption of principal amount of borrowings	3,866,365	3,682,479
Organizations under common control		
Provision of services	-	1,909
Repayment of provided borrowings	155,268	-
Acquisition of services	2,964,688	3,269,233
Repayment of borrowings received	130,980	-
Reimbursement of income tax	-	26,228

	As of 31 December, 2018	As of 31 December, 2017
Loans and borrowings from Ministry of Finance of RA	120,368,117	115,076,282
Non-current financial assets	-	24,288
Trade and other payables	1,151,111	5,289,643
Other borrowings	4,593,490	4,593,490

19.3 Compensations to key management

During reporting period, the compensations to key management of the Company are the following:

	2018	2017
		AMD'000
Salaries and other short-term reimbursements	18,030	16,871
	18,030	16,871

20. Financial Instruments risks

The Company activities expose it to a variety of financial risks:

- Debt risk
- fair value interest rate risk, cash flow interest rate risk
- foreign currency risk
- other price risk
- liquidity risk

The Company may be exposed to risks arising from its use of financial instruments as it is typical of all other business activities. This note describes the Company's objectives, policy, risk management processes and their measurement methods. These financial statements present quantitative information on the aforementioned risks.

Significant changes have not been reported in relation to the risks arising from financial instruments, the Company's objectives, policy, risk management processes and their measurement methods.

(a) Primary financial instruments

The main financial instruments of the Company, from which financial instruments risk arises, are as follows:

- Trade receivables:
- Cash and cash equivalents:
- Trade and other payables.
- Loans and borrowings

(b) Financial instruments by categories

The balances presented in the financial statements relate to the following groups of assets and liabilities:

Financial assets

	Note	2018	2017
<i>Measured at amortized cost (loans and receivables -2017)</i>			
Trade receivables	7	5,465,330	6,458,244
Loans granted		-	24,238
Cash in banks	8	3,914,547	6,072,915
Total		9,379,877	12,555,397

Financial liabilities

	Note	2018	2017
<i>Financial liabilities measured at amortized cost</i>			
Loans and borrowings	10	124,961,607	121,840,738
Trade and other payables	11	20,507,328	28,707,388
Total		145,468,935	150,548,126

(c) Financial instruments not measured at fair value

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

Carrying amount of cash and cash equivalents, trade receivables, loans and borrowings, trade and other payables equals their fair value as a result of their short-term nature.

Common goals, policy and processes

The goal of the company is to establish a policy that will reduce the risk as much as possible, not focusing on its competitiveness and flexibility. Details of this policy are presented below.

20.1 Market risk

20.1.1. Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The management assessed that the fair value of the financial assets and liabilities does not materially differ from their carrying value as at reporting date.

20.2 Credit risk

Credit risk is the risk the Company could incur financial losses resulted from the third parties failure to discharge their obligations toward the Company. Credit risk arises from different financial instruments, such as, trade and other receivables, borrowings provided requirements for financial institutions, and other. The maximum impact of credit risk is presented at following carrying amount of financial assets.

	As of 31 December 2018 AMD'000	As of 31 December 2017 AMD'000
Non-current financial assets	-	24,288
Trade and other receivables	5,465,330	6,458,244
Bank balances	3,914,547	6,072,915
	9,379,877	12,555,447

Trade receivables of the Company are mainly the receivables amounts from "Electric Networks of Armenia" CJSC. The credit risk is acceptable for these trade receivables.

The information on the aging and uncollectible risk of trade and other receivables are presented in note 7.

The credit risk of cash and cash equivalents is acceptable, as the contractual partners are reputable banks.

20.3 Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The transactions of the Company are mainly implemented in Armenian drams. Company's exposure to the currency risk relates to the commercial transactions, expressed initially in a Japanese Yen, USD and EURO.

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As of 31 December 2018 the Company's foreign currency assets/(liabilities) are as follows:

Articles in foreign currency	USD	EUR	JPY	Total
Financial assets				
Cash and cash equivalents	605,996	173	-	606,169
Trade and other receivables	1,907,259	9	2,288	1,909,556
	2,513,255	182	2,288	2,515,725
Financial liabilities				
Loans and borrowings	17,571,680	-	100,745,739	118,317,419
Trade payables	159,360	1,075,237	-	1,234,597
	17,731,040	1,075,237	100,745,739	119,552,016
Net result	(15,217,785)	(1,075,055)	(100,743,451)	(117,036,291)

As of 31 December 2017 the Company's foreign currency assets/(liabilities) are as follows:

Articles in foreign currency	USD	EUR	JPY	Other currency	Total
Financial assets					
Cash and cash equivalents	449,845	-	-	157	450,002
Trade and other receivables	3,039,219	483,015	1,604	16,922	3,540,760
	3,489,064	483,015	1,604	17,079	3,990,762
Financial liabilities					
Loans and borrowings	12,682,781	1,252,511	102,543,971	-	116,479,263
Trade payables	560,119	8,276,971	-	-	8,837,090
	13,242,900	9,529,482	102,543,971	-	125,316,353
Net result	(9,753,836)	(9,046,467)	(102,542,367)	17,079	(121,325,591)

The following table presents the sensitivity of the Company financial results to the increase/decrease of dram against the mentioned currencies by 5%. The 5% is a possible change based on the management's assessment. The sensitivity analysis includes only foreign currency monetary items and at the end of the period adjusts their exchange rate by 5%. The 5% of inflation of the AMD against the mentioned currencies as of December 31, 2018 will have the following impact:

	Impact of USD	Impact of Euro	Impact of Yen	Total
	AMD'000	AMD'000	AMD'000	AMD'000
Gain/ (Loss)	<u>(760,889)</u>	<u>(53,753)</u>	<u>(5,037,173)</u>	<u>(5,851,815)</u>

The effect of the currency fluctuation is variable during the year depending on foreign currency turnover volume. So above presented analysis is considered to be as a reflection of the company's exposure to foreign exchange risk.

The following interest rates to USD, Yen, Euro are established by the RA Central Bank as of December 31.

	31.12.2018	31.12.2017	AMD Appreciation/ (inflation)
	AMD	AMD	
USD rate is	483.75	484.1	0.07%
EUR rate is	553.65	580.1	4.56%
Yen rate is	43.83	42.99	(1,9)%

20.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company management constantly monitors liquidity of the Company to ensure enough cash balances for operational activity.

The Company does not have derivative financial liabilities. The following table analysis the Company non-derivative financial liabilities into relevant maturity groupings based on the remaining periods at the reporting date to the contractual maturity date.

Non-derivative financial liabilities	Maturity Periods			
	Up to 6 months	6-12 months	1-5 years	5 and over
On procurements	20,507,328	-	-	-
Borrowings and loans	4,593,490	-	-	120,368,117
Total	25,100,818	-	-	120,368,117

21. Contingencies and liabilities

21.1 Insurance

The Company does not have coverage for business interruption and third party liability arising from accidents on Company's property or relating to Company's operations.

21.2 Contingent liabilities and provisions

As at December 31, 2018 and date of signing these financial statements there are no litigations initiated against the Company.

21.3 Environmental matters

Management is of the opinion that the Company has met the Government's requirements concerning environmental matters and, therefore, believes that the Company does not have any current material environmental liabilities.

However, environmental legislation in Armenia is in process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

22. Capital management

The Company manages its capital to ensure that it will be able to continue as going concerns. The capital structure of the Company consists of borrowings (current and non-current liabilities) and equity (comprising issued capital, reserves and retained earnings).

The Company's as capital-managed amounts for the reporting year are summarized below:

	As of December 31, 2018	As of December 31, 2017
Borrowings	124,961,607	121,840,738
Less: cash at bank and on hand	(3,914,547)	(6,072,915)
Net debt	121,047,060	115,767,823
Total equity	1,894,936	1,854,076
Ratio of Capital and Debt	1,6%	2%

23. Fair Value measurement disclosures

The following table sets out the assets and liabilities for which fair values are disclosed in the notes:

Item	Fair value AMD'000	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Loans and Borrowings	124,961,607	<u>Current</u> The carrying amount of borrowings approximates its fair values	Level 3	N/A
Trade receivables	5,465,330	<u>Current</u> The carrying amount of short term (less than 12 months) trade receivables approximates its fair values	Level 3	N/A
Trade payables	20,507,328	<u>Current</u> The carrying amount of short term (less than 12 months) trade payables approximates its fair values	Level 3	N/A