

Renshin LLC
Financial Statements
for 2019

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Independent Auditors' Report

To the Board of Directors of Renshin LLC

Opinion

We have audited the financial statements of Renshin LLC (the "Company"), which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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


Tigran Gasparyan
Engagement Partner, Director of KPMG Armenia LLC


KPMG Armenia LLC
14 September 2020



Statement of Financial Position as at 31 December 2019

'000 AMD	Note	31 December 2019	31 December 2018
Assets			
Property and equipment	9	835,854	627,748
Investment property	10	7,119,118	6,181,735
Other non-current assets		403	403
Non-current assets		7,955,375	6,809,886
Inventories	11	6,137,056	3,922,722
Trade and other receivables	12	206,832	443,712
Cash and cash equivalents	13	289,443	84,522
Borrowings given		65,000	-
Balances held on restricted accounts	13	3,875,981	3,953,721
Deposits		53,375	48,375
Current assets		10,627,687	8,453,052
Total assets		18,583,062	15,262,938
Equity			
Charter capital	14	2,000,000	2,000,000
Reserves		246,969	83,702
Retained earnings		782,341	290,802
Total equity	15	3,029,310	2,374,504
Liabilities			
Loans and borrowings	16	6,363,094	5,324,065
Deferred tax liabilities	8	788,251	706,782
Non-current liabilities		7,151,345	6,030,847
Loans and borrowings	16	1,400,141	1,679,162
Trade and other payables		24,094	15,178
Contract liabilities	17	6,978,172	5,163,247
Current liabilities		8,402,407	6,857,587
Total liabilities		15,553,752	12,888,434
Total equity and liabilities		18,583,062	15,262,938

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

Statement of Profit or Loss and Other Comprehensive Income for 2019

'000 AMD	Note	2019	2018*
Revenue	6	176,670	203,689
Cost of sales		(23,500)	(79,841)
Gross profit		153,170	123,848
Change in fair value of investment properties	10(a)	808,619	950,119
Administrative expenses		(81,070)	(70,147)
Other income		21,672	-
Other expenses		(16,946)	(12,857)
Results from operating activities		885,445	990,963
Finance income	7	448,776	337,824
Finance costs	7	(732,052)	(604,018)
Net finance costs		(283,276)	(266,194)
Profit before income tax		602,169	724,769
Income tax expense	8	(45,630)	(157,117)
Profit for the year		556,539	567,652
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss</i>			
Revaluation of property and equipment		199,107	104,627
Related income tax	8(c)	(35,839)	(20,925)
Other comprehensive income, net of income tax	9(a)	163,268	83,702
Total comprehensive income for the year		719,807	651,354

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

These financial statements were approved by management on 14 September 2020 and were signed on its behalf by:

 Eduard Marutyan General Director		 Kristine Chichyan Chief Accountant
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Statement of Changes in Equity for 2019

'000 AMD	Charter capital	Reserves	Retained earnings/ (accumulated losses)	Total
Balance at 1 January 2018*	1,000,000	-	(276,850)	723,150
Total comprehensive income				
Profit for the year	-	-	567,652	567,652
Other comprehensive income				
Revaluation of property and equipment	-	83,702	-	83,702
Total other comprehensive income	-	83,702	-	83,702
Total comprehensive income for the year	-	83,702	567,652	651,354
Transactions with owners of the Company				
Contributions and distributions				
Issue of ordinary shares	1,000,000	-	-	1,000,000
Total contributions and distributions	1,000,000	-	-	1,000,000
Total transactions with owners of the Company	1,000,000	-	-	1,000,000
Balance at 31 December 2018	2,000,000	83,702	290,802	2,374,504
Balance at 1 January 2019	2,000,000	83,702	290,802	2,374,504
Total comprehensive income				
Profit for the year	-	-	556,539	556,539
Other comprehensive income				
Revaluation of property and equipment	-	163,267	-	163,267
Total other comprehensive income	-	163,267	-	163,267
Total comprehensive income for the year	-	246,969	847,341	1,094,310
Transactions with owners of the Company				
Contributions and distributions				
Other distributions	-	-	(65,000)	(65,000)
Total contributions and distributions	-	-	-	-
Total transactions with owners of the Company	-	-	(65,000)	(65,000)
Balance at 31 December 2019	2,000,000	246,969	782,341	3,029,310

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

Statement of Cash Flows for 2019

'000 AMD	Note	2019	2018*
Cash flows from operating activities			
Cash receipts from customers, including VAT:		1,495,860	1,088,560
- Transferred from restricted account	13(b); 17(b)	1,160,193	693,999
- Advances received for the inventory properties under development (receipts to current bank accounts)	17(b)	110,136	149,131
- Cash receipts from the sale of completed inventory properties and investment property rentals		225,531	245,430
Capital expenditure related to inventory property under development including VAT and prepayments given		(2,141,025)	(3,061,249)
Cash paid to suppliers and employees, including VAT		(9,542)	(56,923)
VAT refund received from the state budget		437,816	415,000
Taxes paid other than on income and VAT		(34,115)	(10,297)
Other operating cash flows		(1,437)	(23,434)
Cash flows used in operations before interest paid		(252,443)	(1,648,343)
Interest paid	16(b)	(535,984)	(446,176)
Net cash used in operating activities		(788,427)	(2,094,519)
Cash flows from investing activities			
Placement of deposits		5,000	-
Interest received		396,828	335,709
Acquisition of property and equipment		(28,841)	(17,282)
Acquisition of investment properties		(119,876)	(49,643)
Proceeds from sale of property and equipment		2,500	-
Net cash used in investing activities		255,611	268,784
Cash flows from financing activities			
Proceeds from issue of share capital		-	1,000,000
Proceeds from loans and borrowings		1,443,977	2,346,790
Repayment of loans and borrowings	16(b)	(641,288)	(1,484,659)
Capital distributions		(65,000)	-
Net cash from financing activities		737,689	1,862,131
Net increase in cash and cash equivalents		204,873	36,396
Cash and cash equivalents as at 1 January		84,522	49,256
Effect of exchange rate fluctuations on cash and cash equivalents		48	(1,130)
Cash and cash equivalents at 31 December	13	289,443	84,522

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

Notes to Financial Statements for 2019

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1. Reporting entity

(a) Organisation and operations

Renshin LLC (the “Company”) is a limited liability company incorporated in the Republic of Armenia on 2 October 2002.

The Company’s registered office is 91 Pavstos Buzand Street, area 72, Yerevan 0002, Republic of Armenia.

The Company’s principal activity is development of residential and business properties for sale and for rental purposes in Yerevan.

The Company is equally owned by Arayik Karapetyan and Eduard Marutyan, who have the power to direct the transactions of the Company at their own discretion and for their own benefit. In addition, they have a number of other business interests outside the Company.

Related party transactions are described in detail in Note 22.

(b) Armenian business environment

The Company’s operations are primarily 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 the Armenia. The financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

2. Basis of accounting

Statement of compliance

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

This is the first set of the Company’s annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 5.

3. Functional and presentation currency

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

4. Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Notes 9 and 10 – Valuation of building and investment properties.

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.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 9 – property and equipment; and
- Note 10 – investment property.

5. Changes in significant accounting policies

IFRS 16

The Company initially applied IFRS 16 Leases from 1 January 2019.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 24 (n).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

The Company was not involved in lease contract as a lessee during 2019.

(c) As a lessor

The Company leases out its investment property. The Company has classified these leases as operating leases.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Company has not entered into a sub-lease during 2019 and 2018.

(d) Impact on financial statements

(i) *Impact on transition**

There was no impact on transition to IFRS 16.

A number of other new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements, except those described above.

6. Revenue

(a) Revenue streams

The Company generates revenue primarily from the sale of completed residential properties to its customers. Other sources of revenue include rental income from investment properties.

'000 AMD	<u>2019</u>	<u>2018</u>
Revenue from contracts with the customers		
Revenue from sale of completed inventory property - transferred at a point in time	27,083	84,532
Total revenue from contracts with the customers	<u>27,083</u>	<u>84,532</u>
Other revenue		
Investment property rentals	149,587	119,157
Total other revenue	<u>149,587</u>	<u>119,157</u>
	<u><u>176,670</u></u>	<u><u>203,689</u></u>

As at 31 December 2019 the recognized value of contract liabilities is AMD 6,978,172 thousand (31 December 2018: AMD 5,163,247 thousand), for which revenue will be recognized upon completion of the construction of the project when control over the promised property transferred to the customers (see Note 6(b)).

(b) Contract balances

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

'000 AMD	Note	<u>31 December 2019</u>	<u>31 December 2018</u>
Receivables, which are included in 'trade and other receivables'	12	2,300	3,000
Contract liabilities	17	6,978,172	5,163,247

The contract liabilities primarily relate to the advance consideration received from customers for pre-completion sales of properties under development (see Note 11(a)), for which revenue is recognised point in time. The construction has been completed on December 2019 and will be transferred to the buyers in 2020.

(c) Performance obligations and revenue recognition policies

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

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

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Sale of completed inventory property	The control of the properties are transferred when the properties are accepted by the customers.	Revenue is recognised at a point in time when the properties are accepted by customers and the act of transfer of the right of ownership is completed.
Pre-completion sales of the units in a multi-unit complex under construction	The Customer can terminate the contract at any time and the Company has only the right to retain the 20% of the deposit. The asset units created have no alternative use for the Company, as the contract restrict the Company from re-selling the unit of asset or substituting it with another unit. The customer does not have the ability to direct the use of the asset unit during the construction process.	Revenue is recognised at point in time when the properties have been accepted by customers as the Company does not have an enforceable right to payment for performance completed to date. Advances received are accounted as contract liabilities.

7. Net finance costs

'000 AMD	2019	2018
Interest income under the effective interest method on:		
Balances on restricted accounts and deposits	397,328	335,316
Net foreign exchange income	51,448	2,508
Finance income	448,776	337,824
Financial liabilities measured at amortised cost – interest expense on:		
Loans and borrowings (see Note 16(b))	(283,970)	(292,085)
Interest expense on contract liabilities from the residential multi-unit complex pre-completion sales contracts (see Note 17(b))	(448,082)	(311,933)
Finance costs	(732,052)	(604,018)
Net finance costs recognised in profit or loss	(283,276)	(266,194)

8. Income taxes

(a) Amounts recognised in profit or loss

The Company's applicable tax rate is the income tax rate of 20% for Armenian companies.

'000 AMD	2019	2018
Deferred tax expense		
Origination and reversal of temporary differences	(45,630)	(157,117)
Total income tax expense	(45,630)	(157,117)

Reconciliation of effective tax rate:

	2019		2018	
	'000 AMD	%	'000 AMD	%
Profit before tax	602,169	100	724,769	100
Tax at applicable tax rate	(120,434)	(20)	(144,954)	(20)
Reduction in tax rate*	85,491	14	-	-
Underprovided in prior years	(3,018)	(1)	-	-
Non-deductible expenses	(7,669)	(1)	(12,163)	(2)
	(45,630)	(8)	(157,117)	(22)

* The amount recognised represents the effect of reduction in the income tax rate from 20% to 18% according to changes in the RA tax legislation, with effective date of 1 January 2020.

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
'000 AMD						
Property and equipment	-	-	(100,279)	(71,078)	(100,279)	(71,078)
Investment property	-	-	(867,705)	(784,009)	(867,705)	(784,009)
Inventories	-	-	(39,495)	(9,033)	(39,495)	(9,033)
Contract liabilities	177,972	73,279	-	-	177,972	73,279
Tax loss carry-forwards	41,256	84,059	-	-	41,256	84,059
Net tax assets/(liabilities)	219,228	157,338	(1,007,479)	(864,120)	(788,251)	(706,782)

(c) Movement in deferred tax balances

'000 AMD	1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2019
Property and equipment	(71,078)	6,638	(35,839)	(100,279)
Investment property	(784,009)	(83,696)	-	(867,705)
Inventories	(9,033)	(30,462)	-	(39,495)
Contract liabilities	73,279	104,693	-	177,972
Tax loss carry-forwards	84,059	(42,803)	-	41,256
	(706,782)	(45,630)	(35,839)	(788,251)

'000 AMD	1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2018
Property and equipment	(45,261)	(4,892)	(20,925)	(71,078)
Investment property	(583,851)	(200,158)	-	(784,009)
Inventories	-	(9,033)	-	(9,033)
Contract liabilities	1,860	71,419	-	73,279
Tax loss carry-forwards	98,512	(14,453)	-	84,059
	(528,740)	(157,117)	(20,925)	(706,782)

9. Property and equipment

'000 AMD	Building	Vehicles	Office and computer equipment	Total
<i>Cost or deemed cost/Revalued amount</i>				
Balance at 1 January 2018	485,257	92,126	18,901	596,284
Additions	-	17,282	-	17,282
Revaluation	104,627	-	-	104,627
Balance at 31 December 2018	589,884	109,408	18,901	718,193
<i>Cost or deemed cost/Revalued amount</i>				
Balance at 1 January 2019	589,884	109,408	18,901	718,193
Additions	-	681	28,160	28,841
Revaluation	199,107	-	-	199,107
Balance at 31 December 2019	788,991	110,089	47,061	946,140
<i>Depreciation</i>				
Depreciation balance at 1 January 2018	-	(61,688)	(6,305)	(67,993)
Depreciation for the year	(5,108)	(14,683)	(2,661)	(22,452)
Balance at 31 December 2018	(5,108)	(76,371)	(8,966)	(90,445)
<i>Depreciation</i>				
Depreciation balance at 1 January 2019	(5,108)	(76,371)	(8,966)	(90,445)
Depreciation for the year	(6,221)	(10,432)	(3,189)	(19,842)
Balance at 31 December 2019	(11,329)	(86,802)	(12,155)	(110,286)
<i>Carrying amounts</i>				
At 1 January 2018	485,257	30,438	12,596	528,291
At 31 December 2018	584,776	33,037	9,935	627,748
At 31 December 2019	777,662	23,287	34,906	835,854

Depreciation expense of AMD 19,842 thousand (2018: AMD 22,452 thousand) has been charged to administrative expenses.

(a) Revaluation of building

Management contracted S.G.M. Grand LLC to independently appraise building as at 31 December 2019.

The basis for the appraisal are the combination of:

- The market comparable approach. Under the market comparable approach, a property's fair value is estimated based on comparable transactions. Key assumptions relate to the condition, quality and location of buildings used as comparatives. The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property.
- The income capitalisation approach. Under this approach, forecast net cash flows, based upon current market derived estimated rental values (market rents) together with estimated costs, are discounted at market derived capitalisation rates to produce the valuer's opinion of fair value. The average discount rate, which, if applied to all cash flows would produce the fair value, is described as the equivalent yield.

Significant unobservable inputs of the approach are as follows:

- Operating expenses (15%);
- Occupancy rate (90%);
- Capitalization rate (4.5%).

The fair value of building was determined to be AMD 777,663 thousand (31 December 2018: AMD 584,776 thousand), which has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used (see Note 4). Revaluation surplus, net of related income tax of AMD 159,286 thousand (2018: AMD 83,702 thousand) is recognised in other comprehensive income for the year ended 31 December 2019.

(b) Security

At 31 December 2019 building with a carrying amount of AMD 777,662 thousand (31 December 2018: AMD 584,776 thousand) and vehicle with a carrying amount of AMD 19,407 thousand (31 December 2018: AMD 25,718 thousand) are pledged as collateral for secured bank loans 3 and 4 (see Note 16(a)).

10. Investment property

(a) Reconciliation of carrying amount

'000 AMD	2019	2018
Balance at 1 January	6,181,735	5,181,973
Acquisitions	140,702	49,643
Disposals	(11,938)	-
Change in fair value	808,619	950,119
Balance at 31 December	7,119,118	6,181,735

Investment property comprises primarily commercial properties held with the aim of capital appreciation and earnings rentals or both and properties with undetermined future use. Changes in fair values are recognised as gains in profit or loss. All gains are unrealised.

(b) Measurement of fair value

(i) Fair value hierarchy

The fair value measurement for investment property of AMD 7,119,118 thousand has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see Note 0). There have been no transfers of properties within the fair value hierarchy in the financial year.

The following valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs:

- The market comparable approach. Under the market comparable approach, a property's fair value is estimated based on comparable transactions. Key assumptions relate to the condition, quality and location of buildings used as comparatives. The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property.
- The income capitalisation approach. Under this approach, forecast net cash flows, based upon current market derived estimated rental values (market rents) together with estimated costs, are discounted at market derived capitalisation rates to produce the valuer's opinion of fair value. The average discount rate, which, if applied to all cash flows would produce the fair value, is described as the equivalent yield.

Significant unobservable inputs of the approach are:

- Operating expenses (15%);
- Occupancy rate (90%);
- Capitalization rate (4.5%).

(c) Security

At 31 December 2019 investment properties with a carrying amount of AMD 5,905,265 thousand (31 December 2018: AMD 4,583,516 thousand) are pledged as collateral for secured bank loans 1 and 3 and secured loan from other related party (see Note 16(a)).

11. Inventories

'000 AMD	<u>31 December 2019</u>	<u>31 December 2018</u>
Completed inventory property	6,137,056	243,619
Inventory property under development	-	3,679,103
	<u>6,137,056</u>	<u>3,922,722</u>

(a) Inventory property under development

As at 31 December 2019 there was no inventory property under development (31 December 2018: AMD 3,679,103 thousand) is pledged as collateral for secured bank loan 1 (see Note 16(a)).

The Construction has been completed on December 2019. The entity has started to transfer the control to the buyers in 2020.

Inventory property under development as at 31 December is as follows (by projects):

<u>Name of the project</u>	<u>Location of the project</u>	<u>Type of the project</u>	<u>31 December 2019</u> <u>'000 AMD</u>	<u>31 December 2018</u> <u>'000 AMD</u>
Davtashen II	Davtashen administrative district, Yerevan	Residential multi-unit complex	-	3,679,103

During 2019 borrowing costs of AMD 433,193 thousand (2018: 206,195 thousand) (see Note 16(b) and Note 17(b)) were capitalised into inventory property under development. The weighted-average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 9%.

(b) Completed inventory property

At 31 December 2019 completed inventory property with a carrying amount of AMD 5,904,999 thousand is pledged as collateral for secured bank loan 1 (see Note 16(a)).

Completed inventory property as at 31 December is as follows (by projects):

<u>Name of the project</u>	<u>Location of the project</u>	<u>Type of the project</u>	<u>31 December 2019</u> <u>'000 AMD</u>	<u>31 December 2018</u> <u>'000 AMD</u>
Davtashen I	Davtashen administrative district, Yerevan	Residential apartments and parking spaces	232,057	243,619
Davtashen II	Davtashen administrative district, Yerevan	Residential multi-unit complex	5,904,999	-

12. Trade and other receivables

'000 AMD	31 December 2019	31 December 2018
Trade receivables	9,847	17,466
Prepayments given	118,706	229,949
Tax receivables other than on income tax	75,516	194,326
Other receivables	2,763	1,971
	206,832	443,712

The allowance for impairment over trade receivables is considered immaterial.

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 18.

13. Cash and cash equivalents and balances held on restricted accounts

'000 AMD	31 December 2019	31 December 2018
Bank balances (current accounts)	259,334	47,417
Petty cash	30,109	37,106
Cash and cash equivalents in the statement of financial position	289,443	84,523
Balances held on restricted accounts	3,875,981	3,953,721
Cash, cash equivalents and restricted accounts in the statement of cash flows	4,165,424	4,038,244

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 18.

Balances held on restricted accounts represent developer's special accounts with conditions that restrict the use by the Company under the special terms.

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 18.

Developer's special accounts were opened for purposes to receive payments from customers in frames of the pre completion sales agreement between the customers and the Company.

All funds credited to the developer's special accounts are restricted by the banks and is not be available for the use by the Company.

The funds may be debited from the special accounts, if the developer and buyer have a consent on it or after transfer the ownership right to the buyer and completion of the contract.

(a) Security

As at 31 December 2019 and 31 December 2018 bank balances (developer’s restricted special accounts) were pledged by the Company in favor of the customers in order to fulfill its contractual obligations under pre-completion sales contracts described in Note 6(c).

(b) Reconciliation of carrying amount (developer’s restricted special accounts)

‘000 AMD	Note	2019	2018
Balance at 1 January		3,953,721	2,666,375
Advances received for the pre-completion sales of inventory properties under development	17(b)	1,082,453	1,981,345
Balances held on restricted accounts used in operations (transfers from developers special accounts to current bank accounts)		(1,160,193)	(693,999)
Balance at 31 December		3,875,981	3,953,721

14. Capital and reserves

(a) Charter capital

The owners of charter capital are entitled to receive dividends as declared from time to time. 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 IFRS.

(b) Dividends

No dividends were declared at the reporting date and during 2019 (31 December 2018: nil). No dividends were proposed after 31 December 2019 and up to the date these financial statements were authorised.

(c) Revaluation surplus

The revaluation surplus relates to the revaluation of property and equipment.

15. 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 through loans and borrowings. With these measures the Company aims for steady profits growth.

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

'000 AMD	31 December 2019	31 December 2018
Total liabilities	15,553,752	12,888,434
Less: balances held on restricted accounts	3,875,981	3,953,721
Less: cash and cash equivalents	289,443	84,522
Net debt	11,388,328	8,850,191
Total equity	3,029,310	2,374,504
Net debt to equity ratio at 31 December	3.8	3.7

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

The Company is not subject to externally imposed capital requirements.

16. Loans and borrowings

This note provides information about the contractual terms of the Company's 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 18.

'000 AMD	31 December 2019	31 December 2018
<i>Non-current liabilities</i>		
Secured bank loans	6,047,724	5,202,395
Unsecured borrowings from related parties	315,370	121,670
	6,363,094	5,324,065
<i>Current liabilities</i>		
Secured bank loans	44,045	46,556
Unsecured borrowings from related parties	1,356,096	1,623,686
Secured loan from other related party	-	8,920
	1,400,141	1,679,162

(a) Terms and debt repayment schedule

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2019		31 December 2018	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan 1	USD	8%	2022	3,621,975	3,621,975	2,746,026	2,746,026
Secured bank loan 2	USD	8%	2022	1,258,860	1,258,860	1,269,197	1,269,197
Secured bank loan 3	USD	8%	2022	1,207,576	1,207,576	1,216,797	1,216,797
Secured bank loan 4	USD	11%	2020	3,358	3,358	16,931	16,931
Unsecured borrowings from related party	AMD	10%	2021	315,370	315,370	-	-
Unsecured borrowings from related party	AMD	10%	2020	210,301	210,301	-	-
Unsecured borrowings from related party	AMD	10%	2020	208,877	208,877	-	-
Unsecured borrowings from related party	AMD	10%	2019	-	-	208,401	208,401
Unsecured borrowings from related party	AMD	10%	2019	-	-	420,711	420,711
Unsecured borrowings from related party	AMD	10%	2019	-	-	52,589	52,589
Unsecured borrowings from related party	USD	8%	2020	-	-	121,670	121,670
Unsecured borrowings from related party	USD	8%	2020	51,203	51,203	-	-
Unsecured borrowings from related party	USD	9%	2019	-	-	52,025	52,025
Secured loan from related party	AMD	0%	2019	-	-	8,920	8,920
Unsecured borrowings from business partner of participant	AMD	0%	On demand	430,000	430,000	430,000	430,000
Unsecured borrowings from business partner of participant	AMD	0%	On demand	455,715	455,715	459,960	459,960
				7,763,235	7,763,235	7,003,227	7,003,227

Borrowings from business partner of participant are repayable on demand with three banking days notice period.

Bank loans are secured by the following:

- Secured bank loan 1 is secured by completed inventory property with a carrying amount of AMD 5,904,999 thousand (31 December 2018: AMD 3,679,103 thousand), see Note 11(a) and Note 11(b).
- Secured bank loan 2 is secured by investment property with a carrying amount of AMD 3,399,781 thousand (31 December 2018: AMD 3,097,167 thousand), see Note 10(c).
- Secured bank loan 3 is secured by investment property with a carrying amount of AMD 2,457,276 thousand (31 December 2018: 1,433,807 thousand), see Note 10(c) and building with a carrying amount of AMD 777,662 thousand (31 December 2018: AMD 584,776 thousand), see Note 9(b).
- Secured bank loan 4 is secured by vehicle with a carrying amount of AMD 19,407 thousand (31 December 2018: AMD 25,718 thousand), see Note 9(b).
- Secured loan from other related party is secured by investment property with a carrying amount of AMD 48,208 thousand (31 December 2018: 52,542 thousand), see Note 10(c).

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

	Note	Liabilities	Equity	Total
		Other loans and borrowings	Charter capital	
'000 AMD				
Balance at 1 January 2019		7,003,227	2,000,000	9,003,227
Changes from financing cash flows				
Proceeds from loans and borrowings		1,443,977	-	1,443,977
Repayment of loans and borrowings		(641,288)	-	(641,288)
Total changes from financing cash flows		7,805,916	2,000,000	9,805,916
The effect of changes in foreign exchange rates		(49,606)	-	(49,606)
Other changes				
<i>Liability-related</i>				
Capitalised borrowing costs	11(a)	258,939	-	258,939
Interest expense	7	283,970	-	283,970
Interest paid		(535,984)	-	(535,984)
Total liability-related other changes		6,925	-	6,925
Balance at 31 December 2019		7,763,235	2,000,000	9,763,235

	Note	Liabilities	Equity	Total
		Other loans and borrowings	Charter capital	
'000 AMD				
Balance at 1 January 2018		6,136,029	1,000,000	7,136,029
Changes from financing cash flows				
Proceeds from issue of share capital		-	1,000,000	1,000,000
Proceeds from loans and borrowings		2,346,790	-	2,346,790
Repayment of loans and borrowings		(1,484,659)	-	(1,484,659)
Total changes from financing cash flows		862,131	1,000,000	1,862,131
The effect of changes in foreign exchange rates		(1,872)	-	(1,872)
Other changes				
<i>Liability-related</i>				
Capitalised borrowing costs	11(a)	161,030	-	161,030
Interest expense	7	292,085	-	292,085
Interest paid		(446,176)	-	(446,176)
Total liability-related other changes		6,939	-	6,939
Balance at 31 December 2018		7,003,227	2,000,000	9,003,227

17. Contract liabilities

'000 AMD	<u>31 December 2019</u>	<u>31 December 2018</u>
<i>Current liabilities</i>		
Pre-completion advances received for of inventory properties under development	6,978,172	5,163,247
	<u>6,978,172</u>	<u>5,163,247</u>

The contract liabilities primarily relate to the advance consideration received from customers based for the pre-completion sales of the inventory properties under development based on the contracts between the Company and customer in the right to purchase immovable property in a building under construction, for which revenue is recognised point in time at the date of the transfer of the control to the customer.

In accordance with the Civil Code of the Republic of Armenia advance payments by customer for the apartment purchases shall be made exclusively to the special accounts of the Company, which shall be opened with a bank operating on the territory of the Republic of Armenia.

(a) Significant financing component

These contracts contain significant financing component because of the length of time between when the consideration was received and when the Company transfer the control to the customer. Under IFRS 15 for these contracts the amount of consideration is adjusted to reflect the time value of money using rate that would be reflected in a separate financing transaction between the Company and its customer at contract inception.

The effect of a significant financing component is estimated using the interest rate of 10% to 12%, depending on the date of inception of the contract and expected receipt of prepayments.

The impact of these changes on items other than revenue is an increase in contract liability.

(b) Reconciliation of carrying amount

'000 AMD	Note	<u>2019</u>	<u>2018</u>
Balance at 1 January		5,163,247	2,675,673
Advances received for the pre-completion sales of inventory properties under development (receipts to developers' special accounts)	13(b)	1,082,453	1,981,345
Advances received for the pre-completion sales of inventory properties under development (receipts to current bank accounts)		110,136	149,131
Interest expense on contract liabilities recognised in profit or loss	7	448,082	311,933
Interest expense capitalised on inventory property under development	11(a)	174,254	45,165
Balance at 31 December		<u>6,978,172</u>	<u>5,163,247</u>

18. Fair values and risk management

(a) Accounting classifications and fair values

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

(b) Measurement of fair values

Financial instruments not measured at fair value

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

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

(c) Financial risk management

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

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

(i) Risk management framework

The Board of Directors 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.

(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 balances with financial institutions.

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

Trade receivables

Due to nature of its activities the Company has no significant credit risk from receivables from customers.

Cash and cash equivalents, and balances held on restricted accounts and deposits

The Company held balances (current accounts) of AMD 259,334 thousand and restricted accounts and deposits of AMD 3,929,356 thousand at 31 December 2019 (31 December 2018: AMD 47,417 thousand and AMD 4,002,096 thousand respectively), which represents its maximum credit exposure on these assets. All the balances are held with reputable Armenian banks and the Company does not expect them to fail to meet their obligations.

Current accounts and balances held on restricted accounts and deposits are fully in Stage 1 and ECL has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company's approach for assessment of ECLs for cash and cash equivalents is presented in Note 24(k).

Financial guarantee contracts

The Company does not consider that financial guarantee contracts entered into by the Company to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them under IFRS 9. The Company's policy is to provide financial guarantees only for related parties' liabilities. At 31 December 2019 and 31 December 2018, the Company has issued guarantees to certain banks in respect of loans granted to its participant and entities under control of participant (see Note 20(b)).

For expected credit loss calculation the 12 months probability of default (PD) management is estimated to be 3.0%.

The Company's approach for assessment of ECLs for financial guarantee contracts is presented in Note 24(k).

(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 2019

'000 AMD	Carrying amount	Contractual cash flows					
		Total	On demand	Less than 2months	2-12 months	1-2 years	2-5 years
Non-derivative financial liabilities							
Secured bank loans	6,091,769	7,013,189	-	2,279	1,898,814	2,811,506	2,232,032
Unsecured borrowings from other related party	785,751	787,049	-	51,844	419,387	315,818	-
Unsecured borrowings from related party	885,715	885,715	885,715	-	-	-	-
Trade payables	20,675	20,675	-	20,675	-	-	-
Financial guarantess provided	-	340,790	-	-	196,880	143,910	-
	7,783,910	9,047,418	885,715	74,798	2,515,081	3,271,234	2,232,032

31 December 2018

'000 AMD	Carrying amount	Contractual cash flows					
		Total	On demand	Less than 2months	2-12 months	1-2 years	2-5 years
Non-derivative financial liabilities							
Secured bank loans	5,248,951	6,542,719	-	66,632	381,401	1,647,034	4,447,652
Unsecured borrowings from other related party	855,396	861,077	-	-	739,246	121,831	-
Secured loan from other related party	8,920	8,920	-	1,460	7,460	-	-
Unsecured borrowings from related party	889,960	889,960	889,960	-	-	-	-
Trade payables	13,965	13,965	-	13,965	-	-	-
Financial guarantess provided	-	343,625	-	-	145,125	198,500	-
	7,017,192	8,660,266	889,960	82,057	1,272,232	1,967,365	4,447,652

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

(iv) **Market risk**

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

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

Currency risk

The Company is exposed to currency risk on loans and borrowings that are denominated in currencies other than the functional currency of the Company. The currency in which these transactions primarily are denominated is USD.

Exposure to currency risk

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

'000 AMD	USD-denominated	USD-denominated
	31 December 2019	31 December 2018
Deposits	48,375	48,375
Loans and borrowings	(6,598,687)	(5,882,606)
Net exposure	(6,550,312)	(5,834,231)

The following significant exchange rates have been applied during the year:

in AMD	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
	480.24	483.93	479.70	483.75

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AMD, as indicated below, against the USD at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

'000 AMD	Strengthening	Weakening
	Profit or loss	Profit or loss
31 December 2019		
AMD 10% movement against USD	655,031	(655,031)
31 December 2018		
AMD 10% movement against USD	583,423	(583,423)

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:

'000 AMD	Carrying amount	
	2019	2018
Fixed rate instruments		
Financial assets	3,929,356	4,002,096
Financial liabilities	(7,763,235)	(7,003,227)
	(3,833,879)	(3,001,131)

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 fair value through other comprehensive income. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

19. Leases

(a) Leases as lessee

The Company was not involved in lease contracts as a lessee during 2019.

(b) Leases as lessor

The Company leases out its investment properties (see Note 10). All leases are classified as operating leases from a lessor perspective, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 10 sets out information about the operating leases of investment property.

Rental income recognised by the Company during 2019 was AMD 149,587 thousand (in 2018: AMD 119,157 thousand) were included in revenue (see Note 6).

The following table sets out a maturity analysis of expected lease payments, showing the undiscounted lease payments to be received after the reporting date.

'000 AMD

2019 – Operating leases under IFRS 16

Less than one year	123,187
One to two years	117,490
Two to three years	117,490
Three to four years	27,458
Four to five years	5,125
More than five years	6,250
Total	397,000

2018 – Operating leases under IAS 17

Less than one year	134,622
Between one and five years	323,625
More than five years	-
Total	458,247

20. Commitments

(a) Capital expenditure related to inventory property under development

The Company completed “Davtashen II” project development in December 2019 and no commitments are outstanding at 31 December 2019 (see Note 11(a)). The commitments related to “Davtashen II” project development contracts at 31 December 2018 amounted to AMD 310,545 thousand.

(b) Guarantees to related parties

The Company accounts these contracts under IFRS 9. The standard requires to measure the contract initially at fair value, and subsequently at the higher of the amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Company’s policy is to provide financial guarantees only for under related partys’ liabilities.

At 31 December 2019 and 31 December 2018, the Company has guaranteed the performance of its participant and entities under control of participants under the bank loan agreements.

The contract amount and outstanding balance of the guarantee provided to the participant is AMD 143,910 thousand as at 31 December 2019 (31 December 2018: AMD 144,900 thousand and AMD 72,305 respectively). The total contract amount and outstanding balance of the guarantees provided to entities under control of participants is AMD 196,880 thousand (31 December 2018: AMD 198,500 thousand).

All guarantees are in stage 1, and management estimates that the ratings are approximates to B- based on Standard & Poor's rating system.

Under the guarantee agreements, the Company irrevocably and unconditionally:

- guarantee to the banks punctual performance of all the obligations of the guarantors or borrowers under the bank loan agreements;
- undertake with the banks that whenever the borrowers do not pay any amount when due under or in connection with the loan agreements, the Company shall immediately on demand pay that amount as if it was the principal obligor.

Management believes that the fair value at initial recognition of the financial guarantee issued and respective ECL allowance is immaterial.

Management estimates that it is not probable that payments will be required from the Company under the guarantees provided.

21. Contingencies

(a) Insurance

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

(b) Litigations

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

(c) Taxation contingencies

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

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

22. Related parties

(a) Parent and ultimate controlling party

The Company is equally owned by Arayik Karapetyan and Eduard Marutyan, who jointly control the Company.

(b) Transactions with members of the Board of Directors and the Management

Total remuneration included in administrative expenses during the year is as follows:

'000 AMD	2019	2018
Salaries and bonuses	12,620	4,742

(c) Other related party transactions

'000 AMD	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2019	2018	2019	2018
Investment property rentals:				
Entities under control of participants	81,320	81,320	4,000	2,600
Prepayments received for investment property rentals:				
Entities under control of participants	-	-	-	1,032
Advances received for the pre-completion sales of inventory properties under development:				
Other related parties	3,672	19,882	62,319	58,647
Donations acted in the capacity of participants:				
Entities under control of participants	65,000	-	-	-
Loans and borrowings received/(repaid):				
Participant	-	(896,112)	-	-
Entities under control of participants	(155,525)	(62,868)	785,751	864,316
Other related parties	-	-	885,715	889,960
Financial guarantees provided:				
Participant	-	-	143,910	145,125
Entities under control of participants	-	505,000	196,880	198,500
Purchase of goods:				
Entities under control of participants	13,668	4,982	1,918	462

Terms of the loans and borrowings received from related parties are described in Note 16(a).

Details of the financial guarantees provided to related parties are described in Note 20(b).

During 2019 interest expense of AMD 77,364 (2018: AMD 81,551 thousand) was accrued on loans and borrowings received from related parties.

23. Basis of measurement

The financial statements are prepared on the historical cost basis, except for investment properties and building (included in property and equipment category) stated at fair value as determined by independent appraisal.

24. 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.

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

(a) Revenue

Information about the Company's accounting policies relating to contracts with customers is provided in Note 6(c).

(b) Contract liabilities

The contract liabilities primarily relate to the advance consideration received from customers for property purchase contracts, for which revenue is recognised on transfer of the property.

The effect of financing (interest expense) is presented separately from revenue from contracts with customers in the statement of profit or loss and other comprehensive income and included in 'finance costs'.

(c) Finance income and finance 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 on financial instruments is recognised using the effective interest method, except for the interest expense calculated on contract liabilities.

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

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

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency 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 assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. 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 are generally recognised in profit or loss.

(e) Short-term employee benefits

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

(f) Income tax

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

(i) Current tax

Current tax comprises 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.

Deferred tax assets are 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. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. 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; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

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

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

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(h) Property and equipment

(i) Recognition and measurement

Items of property and equipment, except for building are measured at cost less accumulated depreciation and any accumulated impairment losses.

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

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

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

(ii) Subsequent expenditure

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

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

(iii) Revaluation of building

Building is measured at fair value, based on periodic valuation by external independent valuers. A revaluation increase on building is recognised directly under the heading of revaluation surplus in other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(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. Land is not depreciated.

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

- building 45 years;
- vehicles 5 years;
- office and computer equipment 1-5 years.

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

(v) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is reclassified accordingly.

(i) Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(j) Financial instruments

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

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

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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

Financial assets – Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

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

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

Financial assets – Subsequent measurement and gains and losses

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

Financial liabilities comprise of loans and borrowings and trade and other payables.

(iii) Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

Financial liabilities

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

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBA key rate, if the loan contract entitles banks to do so and the Company have an option to either accept the revised rate or redeem the loan at par without penalty. The Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

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

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

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

(iv) Derecognition

Financial assets

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

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

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

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

(v) Offsetting

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

(k) Charter capital

Ordinary shares

The shares of the Company are redeemable at the option of the shareholder under the legislation of the Republic of Armenia. The entity is obliged to pay a withdrawing shareholder its share of the net assets of the entity for the year of withdrawal in cash or, with the consent of the shareholder, by an in-kind transfer of assets.

In accordance with IAS 32 *Financial Instruments: Presentation* the net assets attributable to shareholders are classified as equity in all periods presented in these financial statements because the management concluded that the Company's puttable financial instruments satisfy all the conditions set in IAS 32 for equity presentation of puttable instruments.

(l) Impairment

(i) *Non-derivative financial assets*

Financial instruments

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost. Loss allowances for collectively assessed trade receivables are always measured at an amount equal to lifetime ECLs.

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

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

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

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

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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

Measurement of ECLs

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

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 360 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(m) 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.

(n) Leases

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'revenue'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(ii) As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

25. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

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

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *IFRS 17 Insurance Contracts*

26. Subsequent events – the COVID-19 outbreak

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Armenian government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, the Government authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theatres and museums and sport facilities. In order to ensure the sanitary and epidemiological well-being of the population, the Government declared State of Emergency from 16 March to 14 May 2020 for all employees except for medical and pharmacy organizations, emergency services, food and essential goods providers and continuous operating cycle entities.

Due to lockdown and business disruption in many countries, global demand has decreased leading to state budget reduction, which is likely to have major economic and social consequences and unavoidably affect public sector spending.

These events will have wider adverse effects on the economy, including:

- Disruption to business operations and economic activity, with a negative impact on supply chains and breach of contracts;
- Significant disruption to businesses in certain sectors, both operating on domestic market and export-oriented businesses with high reliance on foreign markets. Mostly affected sectors include retail, travel and tourism, entertainment and hospitality sector, transportation, oil industry, construction, automotive, insurance and financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

In March 2020, the Armenian government announced a package of measures to support industries most heavily affected by the outbreak of COVID-19. The program includes, among other, loans with reduced interest rates and fee payments for small and medium-sized businesses, postponement of loans repayment, state support on loans refinancing and restructuring for businesses in hard-hit industries. The list of heavily affected industries is closely monitored and may be adjusted based on further developments.

The Company operates in construction sector that has been affected by outbreak of COVID-19. The demand for the real estate reduced, market price decrease is expected in the short-term. However, the Company has signed presale contracts for majority of its completed inventory properties and advances were received from the customers. The management assess that the effect on price decrease on inventory properties would be immaterial.

Regarding to investment properties, management believes that any drop in rental income would not significantly affect the Company's operations.

As of the date of approval of these financial statements, the Company continued to operate without interruptions and since the first day of state of emergency major part of the staff have switched to remote working.

The Management has considered the impact of the outbreak on its liquidity positions and believes that the impact would not be pervasive.

Taking into account the Company's current operational and financial performance along with other currently available public information, management does not anticipate a significant adverse impact of the COVID-19 outbreak on the Company's financial position and operating results. However, management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Company in the medium and longer term. The Company also considers negative development scenarios and is ready to adapt its operational plans accordingly. Management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.