# “KAMAR BUSINESS CENTER” CJSC
# (Formerly Property Development Company CJSC)

## Financial statements

*For the year ended 31 December 2017*
*together with independent auditor’s report*

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# Independent auditor's report

To the Shareholders of
"Kamar Business Center" CJSC

*Opinion*

We have audited the financial statements of "Kamar Business Center" CJSC (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

*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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Responsibilities of management for the financial statements*

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as 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.

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

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

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

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

Ernst & Young CJSC
Yerevan, Armenia

On behalf of General Director A. Sarkisyan
(by power of attorney dated 1 August 2016)
Partner (Assurance)

Eric Hayrapetyan

11 May 2018

## Statement of comprehensive income

## for the year ended 31 December 2017

| | *Notes* | *2017* | *2016* |
|---|---|---|---|
| | | *AMD '000* | *AMD '000* |
| Rental income | | 81,637 | – |
| Property operating expenses | | (8,014) | – |
| **Net rental income** | | **73,623** | **–** |
| Income from sale of inventories and provided services | | 183,822 | – |
| Cost of sale of inventories and provided services | | (183,193) | – |
| **Net income from sale of inventories and provided services** | | **629** | **–** |
| Increase/(decrease) in fair value of investment property | 5 | 14,858 | (122,351) |
| Depreciation and amortization | | (1,906) | (2,726) |
| Personnel expenses | | (74,281) | (32,535) |
| Administrative expenses | 6 | (71,423) | (42,204) |
| Other income | 7 | 92,523 | 401 |
| Other expenses | | (6,336) | (19,368) |
| Impairment losses | 11 | (403,218) | – |
| Finance income | | 1,801 | 1,175 |
| Finance costs | 8 | (179,525) | (40,271) |
| **Loss before income tax** | | **(553,255)** | **(257,879)** |
| Income tax benefit | 9 | 109,713 | 37,052 |
| **Loss for the year** | | **(443,542)** | **(220,827)** |
| Other comprehensive income for the year | | – | – |
| **Total comprehensive loss for the year** | | **(443,542)** | **(220,827)** |

Director Artashes Kazakhetsyan

Chief Accountant Lilit Chalikyan

11 May 2018

*The accompanying notes 1-23 are an integral part of these financial statements.*

## Statement of financial position

## as at 31 December 2017

| | *Notes* | *2017* | *2016* |
|---|---|---|---|
| | | *AMD '000* | *AMD '000* |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment and intangible assets | | 88,340 | 8,473 |
| Investment property | 5 | 15,421,449 | 11,859,139 |
| VAT receivable | | 1,245,472 | 1,001,235 |
| Deferred VAT | | – | 16,121 |
| Other non-current assets | 10 | 690 | 51,945 |
| | | **16,755,951** | **12,936,913** |
| **Current assets** | | | |
| Current income tax prepayment | | 1,921 | 1,921 |
| VAT receivable | | 358,644 | 32,512 |
| Accounts receivable and prepayments | 11 | 89,098 | 579,799 |
| Cash and cash equivalents | 12 | 82,196 | 1,899,665 |
| Inventories | | 11,562 | – |
| | | **543,421** | **2,513,897** |
| **Total assets** | | **17,299,372** | **15,450,810** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 15 | 7,690,270 | 7,690,270 |
| Accumulated loss | | (538,335) | (94,793) |
| | | **7,151,935** | **7,595,477** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 16 | – | 6,572,801 |
| Deferred tax liabilities | 9 | 415,201 | 524,914 |
| Accounts payable | 14 | 102,264 | – |
| Deferred revenue | 17 | 432,196 | – |
| | | **949,661** | **7,097,715** |
| **Current liabilities** | | | |
| Loans and borrowings | 16 | 8,728,542 | 697,782 |
| Deferred revenue | 17 | 389,056 | – |
| Provisions | 13 | 48,547 | 34,342 |
| Accounts payable | 14 | 31,631 | 25,494 |
| | | **9,197,776** | **757,618** |
| **Total liabilities** | | **10,147,437** | **7,855,333** |
| **Total equity and liabilities** | | **17,299,372** | **15,450,810** |

*The accompanying notes 1-23 are an integral part of these financial statements.*

## Statement of changes in equity

## for the year ended 31 December 2017

| | *Notes* | *Ordinary shares* | *Accumulated loss* | *Total equity* |
|---|---|---|---|---|
| | | *AMD '000* | *AMD '000* | *AMD '000* |
| **At 1 January 2016** | | **6,970,270** | **126,034** | **7,096,304** |
| Issue of share capital | | 720,000 | – | **720,000** |
| Total comprehensive loss for the year | | – | (220,827) | **(220,827)** |
| **At 31 December 2016** | | **7,690,270** | **(94,793)** | **7,595,477** |
| Total comprehensive loss for the year | | – | (443,542) | **(443,542)** |
| **At 31 December 2017** | | **7,690,270** | **(538,335)** | **7,151,935** |

*The accompanying notes 1-23 are an integral part of these financial statements.*

## Statement of cash flows

## for the year ended 31 December 2017

| | *Notes* | *2017* | *2016* |
|---|---|---|---|
| | | *AMD '000* | *AMD '000* |
| **Cash flows from operating activities** | | | |
| Rental income received | | 81,637 | – |
| Rental prepayments received | 17 | 389,056 | – |
| Deposits from tenants received | 17 | 432,196 | – |
| Income from sale of inventories and provided services received | | 183,822 | – |
| Cost of sale of inventories and provided services | | (183,193) | – |
| Salaries and other payments to employees | | (60,269) | (46,423) |
| Administrative and other expenses payments | | (74,579) | (53,102) |
| Taxes paid other than income tax | | (3,317) | (121) |
| Other income receipts | | 120 | 480 |
| **Net cash from/(used) in operating activities** | | **765,473** | **(99,166)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of investment property | | (3,785,004) | (3,162,396) |
| Acquisition of property, plant and equipment | | (67,309) | (6,255) |
| Interest received | | 169 | 1,175 |
| **Net cash used in investing activities** | | **(3,852,144)** | **(3,167,476)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | | – | 720,000 |
| Proceeds from loans and borrowings received | 22 | 8,608,680 | 1,901,140 |
| Repayments of loans and borrowings | 22 | (7,175,550) | – |
| Payments done to receive borrowings | | (17,942) | (14,327) |
| Interest and penalties paid | | (164,614) | (20,662) |
| **Net cash from financing activities** | | **1,250,574** | **2,586,151** |
| **Net decrease in cash and cash equivalents** | | **(1,836,097)** | **(680,491)** |
| | | | |
| Cash and cash equivalents at 1 January | | 1,899,665 | 2,562,886 |
| Effect of movements in exchange rates on cash and cash equivalents | | 18,628 | 17,270 |
| **Cash and cash equivalents at 31 December** | 12 | **82,196** | **1,899,665** |

*The accompanying notes 1-23 are an integral part of these financial statements.*

# 1. Background

## a) Corporate information

“Kamar Business Center” closed joint-stock company (formerly “Property Development Company” closed joint-stock company) (the Company) is a legal entity established on 10 December 2007 under the laws of the Republic of Armenia.

As at 31 December 2016 the sole shareholder of Company was Ameria Group (CY) Limited (the Parent). On 17 February, 2017 Blackoutmoor Limited acquired from the Parent 3,119,472 common shares in the Company comprising 3.935% of the Company’s share capital.

The shareholders of Company as at 31 December 2017 are Ameria Group (CY) Limited (96.065%) and Blackoutmoor Limited (3.935%).

Final beneficiary owner of the Company is Mr. Ruben Vardanyan.

On 23 March 2018 the Company changed its name from “Property Development Company” CJSC to “Kamar Business Center” CJSC.

The legal address of the Company is Vazgen Sargsyan 2, Yerevan 0010, Republic of Armenia.

By 1 November 2017 the Company has generally completed construction of a business center in downtown of Yerevan and commenced its operations. The principal activity of Company is letting of business premises.

## b) Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

2017 has been rather positive for Armenian economy. GDP growth exceeded forecasts from previous year almost twice and is expected to be under 7% for the year. Main contributors for this growth were Trade, Manufacturing and Financial intermediation. CPI was much stable throughout the year at around 1% for 2017; the same can be said about AMD/USD exchange rate.

Management believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

# 2.1 Basis of preparation

## Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except investment property which is stated at fair value. The financial statements are presented in thousands of Armenian Drams and all values are rounded off to the nearest thousand except when otherwise indicated.

# 2.2 Summary of significant accounting policies

## a) Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is national currency of the Republic of Armenia, Armenian Drams (AMD).

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of Armenia (CBA) at respective dates of statement of financial position. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBA are recognized in profit and loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

## 2.2. Summary of significant accounting policies (continued)

### a) Foreign currency translation (continued)

The official CBA exchange rates as at 31 December 2017 and 2016 are disclosed below:

| | ***31 December 2017*** | ***31 December 2016*** |
|---|---|---|
| AMD to USD | 484.10 | 483.94 |
| AMD to EUR | 580.10 | 512.20 |

### b) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Costs of minor repairs and maintenance are expressed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

*Depreciation*

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method over their estimated useful lives:

| | ***Useful lives in years*** |
|---|---|
| Buildings | 40 years |
| Plant and equipment | 5-10 years |
| Fixtures and fittings | 5-10 years |
| Motor vehicles | 7 years |

For specific items of property, plant and equipment the Company may set other useful life, which can’t be less than indicated in the table above.

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### c) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

## 2.2. Summary of significant accounting policies (continued)

### c) Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

Amortization is provided using the straight-line basis over the estimated useful lives of the related assets as follows:

| | |
|---|---|
| Software | 10 years. |

For specific items of intangible assets the Company may set other useful life depending on the asset's nature.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

### d) Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the first in first out basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

### e) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

### f) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

### g) Investment property

Investment property comprises of property under construction (principally offices, commercial warehouse and retail property) which are not occupied substantially for use by, or in the operations of the Company nor for the sale in the ordinary course of business, but are held to earn rentals or for capital appreciation or both, or land with currently undermined future use.

A property interest that is held by the Company under an operating lease is classified and accounted for as investment property if the property meets the definition of an investment property and the Company uses the fair value model for the asset recognized.

## 2.2. Summary of significant accounting policies (continued)

### g) Investment property (continued)

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of a day to day servicing. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the statement of financial position date. Gains and losses arising from the changes in the investment properties are included in the statement of comprehensive income in the year in which they arise.

### h) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

### i) Operating leases

Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

### j) Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR (effective interest rate) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

### k) Employee benefits

Wages, salaries, contributions to the State budget of RA, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Company.

### l) Tenant deposits

Tenant deposits, that meet the definition of financial liability, are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term. Other tenant deposits are stated at the nominal amount.

### m) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

*Rental income*

Rental income is recognised on a straight-line basis over the lease term. Fixed increases in rent over the term of the contract are recognised as income on a straight-line basis over the lease period. The aggregate cost of lease incentives granted is recognised as a reduction of rental income on a straight-line basis over the lease term. Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the income statement when they arise.

## 2.2. Summary of significant accounting policies (continued)

### m) Revenue recognition (continued)

*Rendering of services*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes. These taxes are regarded as collected on behalf on the authorities.

*Interest income*

Interest income is recognized as interest accrued (using the effective interest method). Interest income is included in finance income in the statement of comprehensive income.

### n) Taxes

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2.2. Summary of significant accounting policies (continued)

### n) Taxes (continued)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### o) Financial instruments – initial recognition and subsequent measurement

#### *i) Financial assets*

***Initial recognition and measurement***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

*Measurement of financial instruments at initial recognition*

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Company determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Company recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Company recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

The Company's financial assets include cash and cash equivalents and receivables. None of the Company's financial assets were classified as financial assets at fair value through profit and loss, held-to-maturity investments and available-for-sale financial instruments as at 31 December 2017 and 2016.

***Subsequent measurement***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are integral part of the effective interest rate. The amortization is included in finance income in the statement of comprehensive income.

#### *ii) Impairment of financial assets*

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.2. Summary of significant accounting policies (continued)

### o) Financial instruments – initial recognition and subsequent measurement (continued)

***iii) Financial liabilities***

***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities mainly include trade and other payables and loans and borrowings received.

***Subsequent measurement***

After initial recognition trade and other payables with fixed maturity are measured at amortized cost using effective interest method. Those that do not have fixed maturity are stated at cost.

Loans and borrowings received are measured at amortized cost using effective interest method.

***iv) Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

***v) Fair value of financial instruments***

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

## 2.3 Changes in accounting policies and disclosures

### New and amended standards and interpretations

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment is described below:

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and the comparative period in Note 22.

*Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

## 2.3 Changes in accounting policies and disclosures (continued)

### New and amended standards and interpretations (continued)

***Annual improvements cycle – 2014-2016***

*Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect the Company’s financial statements.

## 3. Significant accounting judgments, estimates and assumptions

### 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 recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of assumptions, estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the Note 5 – “Investment property”.

### 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.

The Company has an established control framework with respect to the measurement of fair values.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized 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 categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized 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 recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

### Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external independent valuator applying a valuation model recommended by the International Valuation Standards Committee.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## 4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Certain other standards issued but not yet effective, which are not presented below, are not applicable for the financial statements of the Company.

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information.

During 2017, the Company performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position or equity from the adoption of IFRS 9.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company currently does not expect a material effect from initial application of IFRS 15.

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

## 4. Standards issued but not yet effective (continued)

***Annual improvements 2014-2016 cycle (issued in December 2016)***

These improvements include:

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply interpretation from its effective date. The Company is assessing the potential effect of the interpretation on its financial statements.

## 5. Investment property

The fair value of investment property as at 31 December 2017 and 31 December 2016 was determined by external, independent property valuator. The independent valuator holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

The fair values of investment properties are categorized into Level 3 of the fair value hierarchy as at 31 December 2017 and 2016.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of investment property.

| | *2017*<br>*AMD '000* | *2016*<br>*AMD '000* |
|---|---|---|
| **Balance at 1 January** | **11,859,139** | **8,971,880** |
| Acquisitions | 3,547,452 | 3,009,610 |
| Change in fair value | 14,858 | (122,351) |
| **Balance at 31 December** | **15,421,449** | **11,859,139** |

Investment property comprises a land area and multistory business center on it located in the center of Yerevan. The Company has completed the construction of multistory business center. There are 7 lease contracts for lease of 75% of gross leasable area (GLA) of property as of 31 December 2017 Ameria Group (CY) Limited companies rented 57% of GLA. None of the properties are leased out to third parties as of 31 December 2016.

### Valuation techniques and significant unobservable inputs

The basis used for the appraisal is the discounted cash flows approach. The valuation model considers the present value of cash outflows to construct the property within one year time based on the approved project and net cash flows to be generated from the property after it is constructed, taking into account expected rental rate, occupancy rate and costs necessary to maintain the property. The expected net cash flows are discounted using risk-adjusted discount rate. Cash flows are based on a 8 year projection period in USD.

## 5. Investment property (continued)

### Valuation techniques and significant unobservable inputs (continued)

The following table shows the significant unobservable inputs used and the effect of reasonably possible alternative assumptions.

Unobservable inputs for the valuation of the investment property were as follows:

| *Description* | *Measurements* | *Range* |
|---|---|---|
| Average rental rate (including VAT) | USD | 29 |
| Average occupancy rate at launch | Percent | 84.8% |
| Average occupancy rate during 2nd year | Percent | 89.8% |
| Average occupancy rate during 3rd year and thereafter | Percent | 95.0% |
| Discount rate at operational phase | Percent per year | 11.0% |
| Investments required (in USD thousands) | USD thousands | 1,700 |

Significant increases/(decreases) in rental rates and average occupancy rate would result in a significantly higher/(lower) fair value of the properties. Significant increases/(decreases) in capitalization rate, discount rate and investment required would result in significantly lower/(higher) fair value.

## 6. Administrative expenses

| | *2017* | *2016* |
|---|---|---|
| | *AMD '000* | *AMD '000* |
| Marketing & advisory | 49,324 | 30,621 |
| Non recoverable taxes | 10,244 | 1,594 |
| Utility | 6,752 | 6,863 |
| Other | 5,103 | 3,126 |
| **Total administrative expenses** | **71,423** | **42,204** |

## 7. Other income

| | *2017* | *2016* |
|---|---|---|
| | *AMD '000* | *AMD '000* |
| Income from penalties | 91,527 | – |
| Other | 996 | 401 |
| **Total other income** | **92,523** | **401** |

## 8. Finance costs

| | *2017* | *2016* |
|---|---|---|
| | *AMD '000* | *AMD '000* |
| Penalties paid for early redemption of loans and borrowings | 132,030 | – |
| Interest expenses | 47,495 | 19,040 |
| Net foreign exchange loss | – | 21,231 |
| **Total finance costs** | **179,525** | **40,271** |

## 9. Taxation

| | *2017* | *2016* |
|---|---|---|
| | *AMD '000* | *AMD '000* |
| **Current income tax** | | |
| Current income tax charge | – | – |
| **Deferred tax** | | |
| Relating to origination and reversal of temporary differences | 109,713 | 37,052 |
| **Income tax benefit reported in the statement of comprehensive income** | **109,713** | **37,052** |

## 9. Taxation (continued)

In 2017 applicable tax rate for current and deferred tax is 20% (2016: 20%).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

| | *2017* | *2016* |
|---|---|---|
| | *AMD ‘000* | *AMD ‘000* |
| **Loss before income tax** | **(553,255)** | **(257,879)** |
| **Theoretical income tax benefit at Armenia’s statutory income tax rate of 20%** | **110,651** | **51,576** |
| Non-deductible expenses | (938) | (14,524) |
| **Income tax benefit reported in the statement of comprehensive income** | **109,713** | **37,052** |

### Deferred tax

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2017 and 31 December 2016.

The deductible temporary differences do not expire under current tax legislation, except for the tax loss carry forwards which can be carried forward for 5 subsequent years.

Movements in temporary differences for the years ended 31 December 2017 and 31 December 2016 are presented as follows:

| | *1 January 2017* | *Origination and reversal of temporary differences through income statement* | *31 December 2017* |
|---|---|---|---|
| | *AMD ‘000* | *AMD ‘000* | *AMD ‘000* |
| Investment property | (531,106) | (38,556) | (569,662) |
| Fixed assets | (174) | (68) | (242) |
| Loans and borrowings | (34,889) | 34,889 | – |
| **Deferred tax liability** | **(566,169)** | **(3,735)** | **(569,904)** |
| Accounts payable | 6,869 | 2,841 | 9,710 |
| Accounts receivable and prepayments | – | 80,219 | 80,219 |
| Tax loss carry-forward | 34,386 | 30,388 | 64,774 |
| **Deferred tax asset** | **41,255** | **113,448** | **154,703** |
| **Net deferred tax liability** | **(524,914)** | **109,713** | **(415,201)** |

| | *1 January 2016* | *Origination and reversal of temporary differences through income statement* | *31 December 2016* |
|---|---|---|---|
| | *AMD ‘000* | *AMD ‘000* | *AMD ‘000* |
| Investment property | (556,382) | 25,276 | (531,106) |
| Fixed assets | – | (174) | (174) |
| Loans and borrowings | (43,240) | 8,351 | (34,889) |
| **Deferred tax liability** | **(599,622)** | **33,453** | **(566,169)** |
| Accounts payable | 17,987 | (11,118) | 6,869 |
| Tax loss carry-forward | 19,669 | 14,717 | 34,386 |
| **Deferred tax asset** | **37,656** | **3,599** | **41,255** |
| **Net deferred tax liability** | **(561,966)** | **37,052** | **(524,914)** |

## 10. Other non-current assets

| | 2017<br>AMD '000 | 2016<br>AMD '000 |
|---|---|---|
| Fees paid to receive loans | – | 51,307 |
| Other | 690 | 638 |
| **Total other non-current assets** | **690** | **51,945** |

## 11. Accounts receivable and prepayments

| | 2017<br>AMD '000 | 2016<br>AMD '000 |
|---|---|---|
| Receivables from tenants | 51,423 | – |
| Prepayments for the construction of investment property | 28,330 | 574,695 |
| Other prepayments | 5,659 | 3,091 |
| Other receivables | 3,337 | 1,663 |
| Receivables from state budget | 349 | 350 |
| **Total accounts receivable and prepayments** | **89,098** | **579,799** |

Accounts receivable and prepayments are non-interest bearing and are generally on 30-60 days term. The main part of accounts receivable and prepayments is presented in Armenian Drams.

In 2017, the Company wrote-off prepayments made to contractor for certain construction works on investment property. in amount of AMD 403,218 thousands.

## 12. Cash and cash equivalents

| | 2017<br>AMD '000 | 2016<br>AMD '000 |
|---|---|---|
| Cash at banks | 82,196 | 929,786 |
| Short-term deposits | – | 969,879 |
| **Total cash and cash equivalents** | **82,196** | **1,899,665** |

Cash and cash equivalents are held in the following currencies:

| *Currency* | 2017<br>AMD '000 | 2016<br>AMD '000 |
|---|---|---|
| USD | 80,979 | 1,892,040 |
| AMD | 1,217 | 7,625 |
| **Total cash and cash equivalents** | **82,196** | **1,899,665** |

## 13. Provisions

| | 2017<br>AMD '000 | 2016<br>AMD '000 |
|---|---|---|
| Vacation reserve | 23,923 | 19,242 |
| Provision for employee bonuses | 20,000 | 12,100 |
| Accruals for received services | 4,624 | 3,000 |
| **Total provisions** | **48,547** | **34,342** |

## 14. Accounts payable

| | 2017 | 2016 |
|---|---|---|
| | AMD ‘000 | AMD ‘000 |
| Implementation guarantee held on construction contract | 102,264 | – |
| **Total non-current accounts payables** | **102,264** | **–** |
| Accounts payables on received services | 12,776 | 21,532 |
| Accounts payables to state budget | 18,855 | 3,962 |
| **Total current accounts payables** | **31,631** | **25,494** |
| **Total accounts payable** | **133,895** | **25,494** |

## 15. Capital and reserves

As at 31 December 2017 the Company had 79,281,131 outstanding ordinary shares (2016: 79,281,131), with par value of AMD 97 per share (2016: 97).

All ordinary shares rank equally with regard to the Company’s residual assets.

## 16. Loans and borrowings

During 2017, the Company obtained USD 18,000 thousand loan from local bank and repaid its two loans from international organizations.

As at 31 December 2017 loans and borrowings in the amount of AMD 8,728,542 thousand consists of one loan from local bank with maturity date on 16 April 2018 and annual interest rate of 3.25% (2016: AMD 7,270,583 thousand, consists of two loans from international financial organizations with maturity date on 15 September 2024 and annual interest rate of 6.25% + LIBOR).

## 17. Deferred revenue

| | 2017 | 2016 |
|---|---|---|
| | AMD ‘000 | AMD ‘000 |
| Deposits from tenants | 432,196 | – |
| **Total non-current deferred revenue** | **432,196** | **–** |
| Deferred rent income | 371,056 | – |
| Other deferred revenue | 18,000 | – |
| **Total current deferred revenue** | **389,056** | **–** |
| **Total deferred revenue** | **821,252** | **–** |

As of 31 December 2017 the Company received from tenants guarantee deposits for the last three or four months of lease.

## 18. Related party disclosure

### (a) Parent and ultimate controlling party

The Company’s immediate parent company is Ameria Group (CY) Limited (formerly TDA Holdings Limited) registered in Cyprus.

The final beneficiary owner of the Company is Mr. Ruben Vardanyan.

#### *(i) Key management remuneration*

Key management received the following remuneration during the year:

| | 2017 | 2016 |
|---|---|---|
| | AMD ‘000 | AMD ‘000 |
| Salaries and bonuses | 89,800 | 120,937 |

The Company capitalized part of key management remuneration on investment property account.

# 18. Related party disclosure (continued)

## (b) Other related party transactions

| | *Subsidiaries of the parent company* | | *Total* | |
|---|---|---|---|---|
| | *2017* | *2016* | *2017* | *2016* |
| | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* |
| **Statement of financial position** | | | | |
| *Assets* | | | | |
| Cash and cash equivalents | 82,196 | 1,899,665 | **82,196** | **1,899,665** |
| Accounts receivable and prepayments | 2,717 | – | **2,717** | – |
| *Liabilities* | | | | |
| Deposits from tenants | 391,866 | – | **391,866** | **–** |
| Deferred income | 389,056 | – | **389,056** | **–** |
| Accounts payable | 7,216 | 6,900 | **7,216** | **6,900** |
| **Statement of comprehensive income** | | | | |
| Rental income | 23,416 | – | **23,416** | **–** |
| Administrative expenses | 35,834 | 23,422 | **35,834** | **23,422** |
| Accounts payables | 7,216 | – | **7,216** | **–** |
| Other expenses | 6,336 | 10,180 | **6,336** | **10,180** |
| Other income | 526 | 400 | **526** | **400** |
| Finance income | 169 | 1,175 | **169** | **1,175** |

In 2017 the Company had part of loans received to finance the construction of the business centre placed as deposit at a related party. Interest income earned on the deposit in amount of AMD 4,060 thousand (2016: AMD 26,614 thousand) was deducted from the borrowing costs capitalised on investment property.

# 19. Commitments and contingencies

## (i) Tax risks

Armenian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Often, differing interpretations exist among numerous taxation authorities. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in the Republic of Armenia substantially more significant than in other countries.

As at 31 December 2017 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

## (ii) Legal matters

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from claims and complaints, both presented and potential, will not have a material adverse effect on the Company's financial position or the results of its future operations and is less than probable, accordingly no corresponding accrual was provided in these financial statements.

In January 2017, Company presented in court a claim against the contractor on return of the compensation in addition to other penalties due to non-performance of the contractual obligations (the total amount of the claim against the contractor is AMD 1,780,820 thousand). The counterparty presented a counterclaim in court on seizure of payment in the amount of AMD 1,615,783 thousand for investment property construction works. No provision was created by the Company for the counterclaim by the counterparty as the management assesses that the court decision against the Company is not probable.

## (iii) Lease commitments

The Company has no lease commitments as at 31 December 2017 (31 December 2016: AMD 5,483).

## (iv) Commitment to invest in the construction of the investment property

The Company has a commitment to invest in the construction of the investment property in amount of USD 1,700 thousand (AMD 822,970 thousand) as at 31 December 2017 (31 December 2016: USD 6,885 thousand or AMD 3,331,926 thousand).

## 20. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ► In the principal market for the asset or liability, or
- ► In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ► Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ► Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ► Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 31 December 2017 and 2016 the carrying value of the Company’s financial instruments approximates their fair values.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### Fair value measurement hierarchy for assets as at 31 December 2017

| | | | *Fair value measurement using* | | |
|---|---|---|---|---|---|
| | *Date of valuation* | *Total* | *Quoted prices in active markets Level 1* | *Significant observable inputs Level 2* | *Significant unobservable inputs Level 3* |
| | | *AMD ‘000* | *AMD ‘000* | *AMD ‘000* | *AMD ‘000* |
| **Assets measured at fair value** | | | | | |
| Investment property | 31 December 2017 | **15,421,449** | – | – | 15,421,449 |
| **Assets for which fair values are disclosed** | | | | | |
| Cash and cash equivalents | 31 December 2017 | **82,196** | 82,196 | – | – |
| Accounts receivable | 31 December 2017 | **54,760** | – | – | 54,760 |

| | | | *Fair value measurement using* | | |
|---|---|---|---|---|---|
| | *Date of valuation* | *Total* | *Quoted prices in active markets Level 1* | *Significant observable inputs Level 2* | *Significant unobservable inputs Level 3* |
| | | *AMD ‘000* | *AMD ‘000* | *AMD ‘000* | *AMD ‘000* |
| **Liabilities for which fair values are disclosed** | | | | | |
| Accounts payable | 31 December 2017 | **115,040** | – | – | 115,040 |
| Loans and borrowings | 31 December 2017 | **8,728,542** | – | – | 8,728,542 |

## 20. Fair value of financial instruments (continued)

### Fair value measurement hierarchy for assets as at 31 December 2016

| | Date of valuation | Total | Fair value measurement using<br>Quoted prices in active markets Level 1 | Significant observable inputs Level 2 | Significant unobservable inputs Level 3 |
|---|---|---|---|---|---|
| | | AMD '000 | AMD '000 | AMD '000 | AMD '000 |
| **Assets measured at fair value** | | | | | |
| Investment property | 31 December 2016 | **11,859,139** | – | – | 11,859,139 |
| **Assets for which fair values are disclosed** | | | | | |
| Cash and cash equivalents | 31 December 2016 | **1,899,665** | 1,899,665 | – | – |
| Accounts receivable | 31 December 2016 | **1,663** | – | – | 1,663 |

| | Date of valuation | Total | Fair value measurement using<br>Quoted prices in active markets Level 1 | Significant observable inputs Level 2 | Significant unobservable inputs Level 3 |
|---|---|---|---|---|---|
| | | AMD '000 | AMD '000 | AMD '000 | AMD '000 |
| **Liabilities for which fair values are disclosed** | | | | | |
| Accounts payable | 31 December 2016 | **21,532** | – | – | 21,532 |
| Loans and borrowings | 31 December 2016 | **7,270,583** | – | – | 7,270,583 |

No transfers have occurred between Levels in the fair value hierarchy during the reporting period.

## 21. Risk management

The Company's principal financial instruments, other than derivatives, comprise loans and borrowings from local bank, from international financial organizations, cash in bank and short-term deposits. The Company has other financial instruments, such as trade receivables, which arise directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk.

The Company's overall risk management program focuses on the unpredictability and inefficiency of the Armenian financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. The Company's senior management oversees the management of these risks and financial risk-taking activities are governed by appropriate policies and procedures so that financial risks are identified, measured and managed in accordance with Company's policies.

The policies for managing each of these risks are summarised below.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits.

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's statement of comprehensive income.

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities.

# 21. Risk management (continued)

## Market risk (continued)

Foreign currencies, in particular the US dollar (USD) play a significant role in the underlying economics of the Company's business transactions. The average market exchange rates for foreign currencies, in which the Company's financial assets and liabilities were denominated, against Armenian Dram (AMD), as declared by the Central Bank of Armenia as at the dates stated, were as follows:

| | *USD* |
|---|---|
| 1 January 2016 | 483.75 |
| Average for 2016 | 480.49 |
| 31 December 2016 | 483.94 |
| Average for 2017 | 482.68 |
| 31 December 2017 | 484.10 |

The following tables demonstrate the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | *Change in rate, (%)* | *Effect on profit before tax* |
|---|---|---|
| | | *AMD '000* |
| **2017** | 3.5 | (302,665) |
| USD | (3.5) | 302,665 |
| USD | | |
| **2016** | | |
| USD | 6.0 | (335,436) |
| USD | (6.0) | 335,436 |

## Liquidity risk

The Company's objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and bank loans and borrowings.

The Company analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments. The Company emphasises financial flexibility. An important part of this emphasis is to minimise liquidity risk through ensuring access to a diversified set of funding sources. The Company uses cash and credit facilities to manage short-term liquidity. Long-term liquidity needs are managed by raising funds in the capital markets.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability.

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

| | *Demand and less than 1 month* | *From 1 to 3 months* | *From 3 to 6 months* | *From 6 to 12 months* | *From 1 to 5 years* | *More than 5 years* | *Total gross amount outflow* | *Carrying amount* |
|---|---|---|---|---|---|---|---|---|
| | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* |
| **Non-derivative liabilities** | | | | | | | | |
| Loans and borrowings | – | 69,563 | 8,725,394 | – | – | – | **8,794,957** | 8,728,542 |
| Accounts payable | 12,776 | – | – | – | 102,264 | – | **115,040** | 115,040 |

The maturity analysis for financial liabilities as at 31 December 2016 is as follows:

| | *Demand and less than 1 month* | *From 1 to 3 months* | *From 3 to 6 months* | *From 6 to 12 months* | *From 1 to 5 years* | *More than 5 years* | *Total gross amount outflow* | *Carrying amount* |
|---|---|---|---|---|---|---|---|---|
| | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* | *AMD '000* |
| **Non-derivative liabilities** | | | | | | | | |
| Loans and borrowings | – | 263,393 | – | 775,661 | 5,482,853 | 3,318,209 | **9,840,116** | 7,270,583 |
| Accounts payable | 11,173 | 10,031 | 328 | – | – | – | **21,532** | 21,532 |

## 21. Risk management (continued)

### Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The companies are generally exposed to the credit risk from their operating activities (primarily for trade receivables) and from their financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Company's cash is primarily held with major reputable banks located in Armenia.

The receivables of the Company are mainly composed from tax receivables and prepayments to suppliers which are secured by bank guarantees. The Company has not created any allowance for receivables as the credit risk is not high.

### Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern as well as to provide financing of its operating requirements, capital expenditures and sustain the Company's development strategy.

## 22. Changes in liabilities arising from financing activities

| | *Note* | *Loans and borrowings* |
|---|---|---|
| | | *AMD '000* |
| **Carrying amount at 1 January 2016** | | **5,300,818** |
| Loans and borrowings received | | 1,901,140 |
| Foreign exchange loss | | (38,696) |
| Other | | 107,321 |
| **Carrying amount at 31 December 2016** | 16 | **7,270,583** |
| Redemption of loans and borrowing | | (7,175,550) |
| Loans and borrowings received | | 8,608,680 |
| Foreign exchange loss | | (16,786) |
| Other | | 41,615 |
| **Carrying amount at 31 December 2017** | 16 | **8,728,542** |

The "Other" line includes the effect of accrued but not yet paid interest on loans and borrowings.

## 23. Events after reporting date

In April 2018, Company obtained loans from HSBC Bank Armenia CJSC and HSBC Bank Plc. in the amount of USD 9,000 thousand and EUR 9,000 thousand with maturity date on 15 January 2025, and repaid it's loan from a local bank in the amount of USD 18,000 thousand.

In March 2018, the Company's name was changed from "Property Development Company" CJSC into "Kamar Business Center" CJSC.