Public Disclosure Authorized

Financial Statements and Independent Auditor's Report

Armenian Nuclear Power Plant CJSC

31 December 2017

Public Disclosure Authorized

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Independent auditor's report

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To the shareholder of Armenian Nuclear Power Plant CJSC

Qualified Opinion

We have audited the financial statements of Armenian Nuclear Power Plant CJSC (the "Company"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As described in note 4 to the financial statements, in 2017 the Company made valuation of its property, plant and equipment. The valuation has been done by an independent valuator. As a result, certain items of property, plant and equipment appeared to be impaired as of 31 December 2017and an impairment loss of drams 6,195,070 thousand has been recognized in other expenses. We were unable to obtain sufficient and appropriate audit evidence about the accuracy of the impairment loss of drams 6,195,070 thousand recorded in the accounts, in particular we could not ascertain the methods and assumptions used, as well as calculations made in deriving the recoverable amounts of these assets. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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 (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 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.

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

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 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.

Grant Thornton

Report on other legal requirements

In accordance with item C.2.a.(vi) of Schedule 2 of the Loan Agreement IBRD Loan Number 8615-AM signed on 12 May 2016 between the Republic of Armenia and International Bank for Reconstruction and Development and with item 4.14 of the Subloan agreement signed on 22 June 2016 between the Ministry of Finance of Republic of Armenia and the Company, the Company is obligated not to incur any expenditure, indebtedness, or any liability or provide loans and grants, for purpose not related to the Company's core business of providing energy generation services.

In our opinion, the Company complied with the above term during the period from 1 January 2017 to 31 December 2017.

Grant Thornton Audit SRL

Bucharest, Romania

Grant Thornton CJSC

Gagik Gyulbudaghyan

Managing Partner

Lilit Arabajyan, FCCA

Auditor

26 June 2018

Statement of financial position

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016 (restated)	As of 1 January 2016 (restated)
Assets				
Non-current assets				
Property, plant and equipment	4	72,726,994	65,773,690	60,272,563
Intangible assets	5	136,229	272,770	176,097
Non-current prepayments	6	2,868,015	2,341,209	2,341,209
Other financial assets		41,804	33,826	33,826
		75,773,042	68,421,495	62,823,695
Current assets				
Inventories	7	23,152,014	26,133,166	19,124,194
Trade and other receivables	8	5,217,285	5,224,446	10,737,345
Current income tax assets		-	290,586	-
Term deposits	9	8,948,517	3,759,871	-
Cash and bank balances	10	173,455	1,701,834	3,768,172
		37,491,271	37,109,903	33,629,711
Total assets		113,264,313	105,531,398	96,453,406

Statement of financial position (continued)

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016 (restated)	As of 1 January 2016 (restated)
Equity and liabilities				
Capital and reserves	11			
Share capital		14,663,599	14,663,599	14,670,349
Reserve capital		954,943	954,943	954,943
Capital contribution		1,585,206	1,585,206	1,585,206
Accumulated profit		35,199,593	38,881,934	42,076,656
		52,403,341	56,085,682	59,287,154
Non-current liabilities				
Loans and borrowings	12	32,947,334	18,691,807	7,279,411
Deferred income tax liabilities	13	2,605,222	3,916,074	4,907,970
Grants related to assets	14	7,827,343	6,749,173	6,222,877
Non-current trade payable	15	3,539,115	-	-
		46,919,014	29,357,054	18,410,258
Current liabilities				
Loans and borrowings	12	390,519	193,612	5,093,438
Trade and other payables	15	13,153,625	19,895,050	13,233,345
Current income tax liabilities		397,814	-	429,211
		13,941,958	20,088,662	18,755,994
Total equity and liabilities		113,264,313	105,531,398	96,453,406

The financial statements were approved on 26 June 2018 by:

Movses Vardanyan
General Director

Emil Nikoghosyan
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 41.

Statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2017	Year ended 31 December 2016 (restated)
Revenue	16	27,191,598	23,736,970
Cost of sales	17	(23,242,467)	(25,818,024)
Gross profit/(loss)		3,949,131	(2,081,054)
Other income		478,121	1,051,154
Administrative expenses	18	(1,490,417)	(1,137,389)
Other operating expenses	19	(7,533,966)	(729,181)
Results from operating activities		(4,597,131)	(2,896,470)
Finance income	20	572,105	50,021
Finance costs	20	(155,832)	(296,858)
Foreign exchange gain/(loss), net	21	73,065	(388,341)
Loss before income tax		(4,107,793)	(3,531,648)
Income tax recovery	22	425,452	336,926
Loss for the year		(3,682,341)	(3,194,722)
Other comprehensive income		-	-
Total comprehensive loss for the year		(3,682,341)	(3,194,722)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 41.

Statement of changes in equity

In thousand drams	Share capital	Reserve capital	Capital contribution	Accumulated profit	Total
as of 1 January 2016	14,670,349	954,943	1,585,206	35,934,581	53,145,079
Adjustment of prior year errors	-	-	-	6,142,075	6,142,075
as of 1 January 2016 (restated)	14,670,349	954,943	1,585,206	42,076,656	59,287,154
Loss for the year (restated)	-	-	-	(3,194,722)	(3,194,722)
Total comprehensive income for the year	-	-	-	(3,194,722)	(3,194,722)
Reduction of share capital	(6,750)	-	-	-	(6,750)
Transactions with owners	(6,750)	-	-	-	(6,750)
as of 31 December 2016 (restated)	14,663,599	954,943	1,585,206	38,881,934	56,085,682
Loss for the year	-	-	-	(3,682,341)	(3,682,341)
Total comprehensive income for the year	-	-	-	(3,682,341)	(3,682,341)
as of 31 December 2017	14,663,599	954,943	1,585,206	35,199,593	52,403,341

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 41.

Statement of cash flows

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Cash received from customers	31,771,201	35,444,580
Other cash receipts	108,167	142,772
Cash paid to employees	(5,201,485)	(4,989,951)
Cash paid to suppliers and other creditors	(15,809,385)	(14,752,558)
Income tax paid	(197,000)	(1,374,767)
Taxes and other mandatory payments made	(7,684,648)	(9,160,801)
Other payments	(200,823)	(264,128)
Interest paid	(419,298)	(296,858)
Net cash from operating activities	2,366,729	4,748,289
Cash flows from investing activities		
Acquisition of non-current tangible and intangible assets	(650,331)	(816,003)
Interest income proceeds	367,892	-
Deposits made	(5,229,716)	(3,709,852)
Net cash used in investing activities	(5,512,155)	(4,525,855)
Cash flows from financing activities		
Proceeds from loans and borrowings	1,626,189	5,246,480
Repayment of loans and borrowings	(67,949)	(8,110,003)
Proceeds from grants	44,543	521,947
Net cash from/(used in) financing activities	1,602,783	(2,341,576)
Net decrease in cash and bank balances	(1,542,643)	(2,119,142)
Foreign exchange effect on cash	14,264	52,804
Cash and bank balances at the beginning of the year	1,701,834	3,768,172
Cash and bank balances at the end of the year	173,455	1,701,834

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 41.

Notes to the financial statements

1 Nature of operations and general information

Armenian Nuclear Power Plant CJSC (the "Company") was established through reorganization of the Armenian Nuclear Power Plant SPE CJSC of the Republic of Armenia Ministry of Energy and Fuel based on the decree N 492 dated 14 October 1994.

The Company was registered in Armavir regional division of the State register of legal entities of the Republic of Armenia on 29 July 1996 in accordance with the legislation of the Republic of Armenia.

100% of the Company shares belong to the Government of the Republic of Armenia, represented by the Ministry of Energy Infrastructures and Natural Resources.

The Company is operating under the following licenses

- License for production of electrical energy and capacity, issued on 21 June 1999 by the Energy Commission of the Republic of Armenia; valid through 10 June 2019
- License for exploitation of the nuclear plant, issued by the State Committee for Nuclear Safety Regulation under the Government of the Republic of Armenia issued on 1 April 2011; valid through 1 April 2021.
- License for import of radioactive materials, issued by the State Committee for Nuclear Safety Regulation under the Government of the Republic of Armenia issued on 7 September 2006; valid through 7 September 2026.
- License for use of radioactive materials, issued by the State Committee for Nuclear Safety Regulation under the Government of the Republic of Armenia issued on 4 May 2006; valid through 4 May 2026.

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

According to the Government decree N 98 dated 4 April 1996 the Company is considered as a nuclear plant operator and is acting in accordance with the international agreements related to atomic energy ratified by the Republic of Armenia.

According to the charter the Company's main activities are secure and effective exploitation of nuclear power objects, electricity production, sale and export.

The Company's production facilities include two power units. According to the USSR Council of Ministers decree two power blocks have been deactivated in 1989 due to safety reasons. In 1993 the Government of the Republic of Armenia made a resolution on resuming the operations of the nuclear power plant. The Ministry of Energy elaborated a framework for resuming the operations of the power units of the plant, and details of necessary activities to increase the security of the N2 power unit. On 5 November 1995 the N2 power unit has resumed its operation after 6.5 years of stoppage. The intended exploitation period has been set till the end of 2016.

Currently, two projects are being implemented by the Company:

- N2 unit Lifetime Extension Project, according to the agreement signed between the Government of the Republic of Armenia and the Russian Federation (RF) Government on 5 February 2015.
- Power Sector Financial Recovery Program, financed by IBRD, loan agreement 8615-AM, signed on 16 May 2016. The objective of the program is to support the efforts of the Republic of Armenia to maintain adequate and reliable electricity supply through improvement of the financial standing of the state-owned power generation companies and the private power distribution company.

Currently the Company produces 40% of the total electric power consumed in the Republic of Armenia.

The average number of employees of the Company during 2017 was 1,782 employees (2016: 1,717 employees).

The Company's legal address is 0910, Metsamor, Armavir marz Republic of Armenia.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are stated at present discounted value of future cash flows.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Company's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in Armenian drams (unless otherwise stated), since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 23 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2017

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

The amendments to IAS 7, effective 1 January 2017, require the Company to provide disclosures about the changes in liabilities from financing activities. The Company categorizes those changes into changes arising from cash flows and non-cash changes with further sub-categories as required by IAS 7 (refer to note 30).

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

The IASB released IFRS 9 *Financial Instruments*, representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Company's management have yet to assess the impact of this new standard on the Company's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Company's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 *Leases*

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Company's management have not yet assessed the impact of IFRS 16 on these financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Company initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the Company shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRIC 23 Uncertainty over Income Tax Treatment

IFRIC 23 provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for

taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

2.6 Restatement of financial statements

The Company applies changes in accounting policies and correction of prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: restating the comparative amounts for the prior periods presented in which the error occurred; or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. The financial statements including the comparative information for prior periods are presented as if the correction had been made in the period in which such a necessity arose. Therefore, the amount of the correction that relates to each period presented is included in the financial statements of that period.

3 Significant accounting policies

3.1 Foreign currencies

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 484.10 drams for 1 US dollar and 580.10 drams for 1 euro as of 31 December 2017 (31 December 2016: 483.94 drams for 1 US dollar, 512.20 drams for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

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

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

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

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

Buildings and constructions	-	20-50 years
Transmission lines	-	10 years
Machinery and equipment	-	5-10 years
Vehicles	-	10 years
Fixture and fittings and other	-	1-10 years

3.3 Intangible assets

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

Amortization is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the intangible assets, which are as follows:

Formulas	-	4-5 years
Licenses, patents and software	-	2-5 years

3.4 Leased assets

Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.5 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Nuclear fuel

Nuclear fuel is recognized in the statement of financial position under inventories. The fuel is received in rods, which are used by the Company within 5 to 6 years once placed into the reactor. Nuclear fuel is recognized as an expense based on calculations made on monthly basis by the technicians according to specially elaborated formulas. At the end of each reporting period the amount recognized as an expense is adjusted by the amount of actually used fuel.

3.6 Financial instruments

Recognition, initial measurement and derecognition

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

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

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

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets other than hedging instruments are divided into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income. Refer to note 24.2 for a summary of the Company's financial assets by category.

Generally, the Company recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

i Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and bank balances.

Trade and other receivables

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to profit or loss of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Cash and bank balances

The Company's cash and bank balances comprise cash in hand, bank accounts and cash in transit.

ii Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity and include deposits at commercial banks. Investments are classified as held-to-maturity if it is the intention of the Company's management to hold them until maturity.

Deposits are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the deposit has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the deposit are recognized in profit or loss.

iii Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, with subsequent changes in value recognized in other comprehensive income. Gains and losses arising from financial instruments classified as available-for-sale are only recognized in profit or loss when they are sold or when the investment is impaired. In the case of impairment, any loss previously recognized in other comprehensive income is transferred to profit or loss. Losses recognized in profit or loss on equity instruments are not reversed through profit or loss but are charged to equity. Losses recognized in prior period profit or loss resulting from the impairment of debt securities are

reversed through profit or loss, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include loans and borrowings and trade and other payables. A summary of the Company's financial liabilities by category is given in note 24.2.

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. The difference between fair value and nominal value is recognized in profit or loss, except when the borrowing was received from the owners. In this instance the difference between fair value and nominal value is recognized in equity as capital contribution. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

ii Trade and other payables

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

3.7 Impairment

Impairment of property, plant and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the

extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3.8 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. The Company begins capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date, which is the date when the Company first meets all of the following conditions: it incurs expenditures for the asset, it incurs borrowing costs, it undertakes activities that are necessary to prepare the asset for its intended use or sale.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is calculated as the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Capitalization of borrowing costs is suspended during extended periods in which the Company suspends active development of a qualifying asset. Capitalization of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3.9 Equity

Equity instruments issued by the Company are recorded at the proceeds received.

Share capital represents the nominal value of shares that have been issued.

Retained earnings include all current and prior period retained profits.

All transactions with owners are recorded separately within equity.

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

3.10 Grants

Grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Grants with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

3.11 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimation can be made of the amount of the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

Contingent liabilities

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is not recognized in the financial statements, instead it is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

3.12 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

3.13 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves;

(c) non-monetary benefits.

When employees render services to the Company during the accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Company shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Company has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

3.14 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company.

Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue of the Company derives from sale of electricity and provision of capacity.

Revenue from sale of electricity is recognized on monthly basis based on the actual electricity transferred.

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

Interest income

Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income

Rental income is recognized on a straight-line basis over the term of the relevant lease.

4 Property, plant and equipment

In thousand drams	Land	Buildings	Structures and constructions	Transmission lines	Machinery and equipment	Vehicles, fixture, fittings and other	Construction in progress	Total
Cost								
as of 1 January 2016 (restated)	7,612,620	11,624,484	10,344,518	9,740,452	48,330,616	2,935,394	8,665,569	99,253,653
Additions	-	1,891	23,509	10,996	490,100	665,101	11,777,367	12,968,964
Disposals	-	-	-	-	(39,367)	(59,090)	-	(98,457)
Internal movement	-	(4,318)	830,006	(140,135)	2,006,981	(331,936)	(2,360,598)	-
Reclassified to inventories	-	-	-	-	-	(1,876)	(17,964)	(19,840)
as of 31 December 2016 (restated)	7,612,620	11,622,057	11,198,033	9,611,313	50,788,330	3,207,593	18,064,374	112,104,320
Additions	-	15,736	1,813	17,308	227,962	2,697,195	14,208,490	17,168,504
Disposals	-	-	-	-	(194,215)	(43,695)	-	(237,910)
Internal movement	-	9,003	3,832	(156,681)	(2,430,241)	2,574,153	(66)	-
Transferred (to)/from inventories and intangible assets	-	-	-	-	(10,477)	166,667	(28,333)	127,857
as of 31 December 2017	7,612,620	11,646,796	11,203,678	9,471,940	48,381,359	8,601,913	32,244,465	129,162,771
Accumulated depreciation and impairment								
as of 1 January 2016	-	4,689,209	4,198,435	4,774,435	23,198,065	1,947,977	172,969	38,981,090
Charge for the year	-	979,205	864,818	746,031	4,609,208	214,469	-	7,413,731
Eliminated on disposal	-	-	-	-	(22,189)	(42,002)	-	(64,191)
Internal movement	-	(2,191)	2,191	-	33,928	(33,928)	-	-
as of 31 December 2016	-	5,666,223	5,065,444	5,520,466	27,819,012	2,086,516	172,969	46,330,630
Charge for the year	-	650,855	508,146	370,587	1,957,876	314,253	-	3,801,717
Impairment	-	1,070,817	768,896	897,318	3,501,522	258,993	-	6,497,546
Eliminated on disposal	-	-	-	-	(194,034)	(42,364)	-	(236,398)
Internal movement	-	11,892	3,832	(80,604)	(1,593,086)	1,657,966	-	-
Transferred (to)/from intangible assets	-	-	-	-	(6,809)	49,091	-	42,282
as of 31 December 2017	-	7,399,787	6,346,318	6,707,767	31,484,481	4,324,455	172,969	56,435,777
Carrying amount								
as of 31 December 2016	7,612,620	5,955,834	6,132,589	4,090,847	22,969,318	1,121,077	17,891,405	65,773,690
as of 31 December 2017	7,612,620	4,247,009	4,857,360	2,764,173	16,896,878	4,277,458	32,071,496	72,726,994

Construction in progress includes the cost of works implemented in the framework of the N2 Power Unit Lifetime Extension project, at the amount of drams 29,910,097 thousand, which include design and survey works, comprehensive examination, project management, assessment of the residual lives of the systems and components of the power unit and also certain equipment at the amount of drams 2,030,567 thousand. On 27 March 2014 the Government of the Republic of Armenia ratified the project for extension of the exploitation period of the N2 power unit of the nuclear power plant for 10 years. As described in note 1 an agreement has been signed by the Government of the Republic of Armenia and the Russian Federation on 5 February 2015 to finance the above project. The project is implemented and managed by Rosatom Service JSC. As a result of the extension works the lifetime of the plant will be extended till 2026. It is planned to finalize the extension works by the end of 2019.

The amount of capitalized borrowing costs is drams 529,406 thousand in 2017 (2016: drams 186,903 thousand). The Company has only specific loans and borrowings. The borrowing costs eligible for capitalization are the actual borrowing costs on that borrowing during the capitalization period.

In 2017 the Company made valuation of its property, plant and equipment. The valuation had been done by an independent valuator. As a result, certain items of property, plant and equipment appeared to be impaired as of 31 December 2017. Impairment loss of drams 6,195,070 thousand has been recognized in other expenses.

In addition, impairment loss of drams 302,476 thousand has been recognized as a result of management intention to discontinue exploitation of certain equipment.

As of 31 December 2017 the cost of fully depreciated property and equipment amounts to drams 8,322,101 thousand (as of 31 December 2016: drams 8,051,199 thousand).

Depreciation expense has been charged to:

In thousand drams

	Year ended 31 December 2017	Year ended 31 December 2016
Cost of sales	3,648,749	7,216,361
Administrative expenses	107,931	114,062
Other operating expenses	45,037	83,308
	3,801,717	7,413,731

5 Intangible assets

In thousand drams	Formulas	Licenses, patents and software	Intangible assets in progress	Total
Cost				
as of 1 January 2016	613,795	142,887	43,000	799,682
Additions	133,333	21,976	40,333	195,642
Internal movement	83,333	-	(83,333)	-
as of 31 December 2016	830,461	164,863	-	995,324
Additions	45,921	20,100	-	66,021
Transferred from/(to) property, plant and equipment	(164,419)	5,690	-	(158,729)
as of 31 December 2017	711,963	190,653	-	902,616
Accumulated amortization				
as of 1 January 2016	524,990	98,595	-	623,585
Charge for the year	64,737	34,232	-	98,969
as of 31 December 2016	589,727	132,827	-	722,554
Charge for the year	68,508	17,606	-	86,114
Internal movement	23,117	(23,117)	-	-
Transferred to property, plant and equipment	(42,281)	-	-	(42,281)
as of 31 December 2017	639,071	127,316	-	766,387
Carrying amount				
as of 31 December 2016	240,734	32,036	-	272,770
as of 31 December 2017	72,892	63,337	-	136,229

Amortization expense has been charged to:

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Cost of sales	10,510	16,219
Administrative expenses	66,684	55,194
Other operating expenses	8,920	27,556
	86,114	98,969

6 Non-current prepayments

Non-current prepayments represent amounts paid to TN International for acquisition of storage tanks for the used nuclear fuel. According to the agreement the delivery of the tanks will take place starting from 2019 through 2020.

7 Inventories

In thousand drams	As of 31 December 2017	As of 31 December 2016
Nuclear fuel in warehouse	6,812,815	6,135,153
Nuclear fuel in reactor	10,160,457	13,840,756
Consumables	2,048,050	2,176,103
Spare parts	2,255,825	3,203,359
Fuel	138,465	132,093
Other	1,736,402	645,702
	23,152,014	26,133,166

The cost of inventories recognized as an expense during the year is drams 11,111,318 thousand (2016: drams 10,033,009 thousand).

8 Trade and other receivables

In thousand drams	As of 31 December 2017	As of 31 December 2016 (restated)
Trade receivables	3,291,173	2,432,457
Advances and prepayments	243,730	100,495
Prepaid taxes	1,671,204	2,670,047
Other	11,178	21,447
	5,217,285	5,224,446

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The average credit period on sales of electric power is 37 days (2016: 31 days). No interest is charged on the trade receivables.

In determining the recoverability of a trade receivable the Company considers any change in the repayment pattern from the debtor from the date credit was initially granted up to the reporting date.

Trade receivables represent amounts due from Electric Networks of Armenia CJSC, the only customer of the Company. Directors believe that there is no credit provision required for the amounts outstanding.

Trade receivables are denominated in Armenian drams.

9 Term deposits

In thousand drams	As of 31 December 2017			
	Principal amount	Accrued interest	Interest rate	Maturity
Armenian dram deposits	8,939,568	8,949	12.75%	27 October 2018
	8,939,568	8,949		

In thousand drams	As of 31 December 2016			
	Principal amount	Accrued interest	Interest rate	Maturity
Armenian dram deposits	2,500,000	41,096	10.0%	10 May 2017
US dollar deposits	1,209,850	8,925	4.5%	25 April 2017
	3,709,850	50,021		

10 Cash and bank balances

In thousand drams	As of 31 December 2017	As of 31 December 2016
Cash in hand	168	461
Bank accounts	173,287	1,701,373
	173,455	1,701,834

Refer to note 25 for the currencies in which the cash and bank balances are denominated.

11 Capital and reserves

11.1 Share capital

Number of shares unless otherwise stated	Ordinary shares 2017	Ordinary shares 2016
Authorized shares		
Number of ordinary shares of drams 3,665,899 each	4,000	4,000

The Company has one class of ordinary shares, which carry no right to fixed income.

All shares of the Company are allocated and fully paid. The shares belong to the Government of the Republic of Armenia, represented by the Ministry of Energy Infrastructures and Natural Resources.

11.2 Reserve capital

According to the charter the Company has to create a reserve capital at 15% of the share capital. The reserve capital is created through transfers from accumulated profit. These transfers are regulated by the Company's charter. The reserve is used to cover future losses of the Company.

11.3 Capital contribution

Capital contribution represents the difference between the fair value and the contractual amount of the borrowings received from the owner.

12 Loans and borrowings

Loans and borrowings represent loans received from the Ministry of Finance.

Sub-loan agreements with the Ministry of Finance of the Republic of Armenia were signed between the Republic of Armenia represented by the Ministry of Finance and the Company to fund respective projects. The sub-loan agreements were preceded by the loan agreements with the Ministry of Finance and International Bank for Reconstruction and Development and the Russian Federation. In accordance with loan agreements the Republic of Armenia has to provide the sub-loans for the total amount of funds received.

Loans from the Ministry of Finance represent:

	Currency	Date of maturity	Nominal interest rate	Effective interest rate	In thousand drams As of 31 December 2017	As of 31 December 2016
Intergovernmental loan from RF	USD	2029	3.0%	3.0%	25,748,903	12,937,339
Co-financing for Intergovernmental loan from RF	AMD	2029	3.0%	3.0%	3,385,313	2,070,280
International Bank for Reconstruction and Development (IBRD)	USD	2040	2.58%	2.37%	3,604,261	3,261,964
Budget loan from the Ministry of Finance	AMD	2035	0.75%	9.0%	599,376	615,836
					33,337,853	18,885,419

As described in note 4, in accordance with the agreement between the Russian Federation and the Government of the Republic of Armenian dated 5 February 2015, the Russian Federation has provided an intergovernmental loan to the Government of the Republic of Armenia to finance the project for extension of the exploitation period of the plant. The entire amount of the agreement is US dollars 270,000 thousand.

As described in note 1, in accordance with the loan agreement 8615-AM dated 16 May 2016 International Bank for Reconstruction and Development will finance the Power Sector Financial Recovery Program. US dollars 8,550 thousand was provided to the Company from the total amount of financing.

The fair values of non-current loans approximate their carrying amounts.

As of 31 December 2017 the Company has drams 105,763,336 thousand of undrawn borrowing facilities (31 December 2016: drams 118,708,514 thousand), which expire after more than 12 months.

13 Deferred income tax liabilities

The movement of deferred income taxes is disclosed below:

In thousand drams	2017	2016 (restated)
Balance at the beginning of year	3,916,074	4,907,970
Credited to profit or loss	(1,310,852)	(991,896)
Balance at the end of year	2,605,222	3,916,074

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

In thousand drams	1 January 2017	Recognized in profit or loss	31 December 2017
Deferred income tax assets			
Borrowings provided	364,208	(2,032)	362,176
Intangible asset	-	28,759	28,759
Inventories	113,495	1,872	115,367
Trade and other receivables	65,500	-	65,500
Trade and other payables	221,459	61,520	282,979
	764,662	90,119	854,781
Deferred income tax liabilities			
Property, plant and equipment	4,680,736	(1,220,733)	3,460,003
	4,680,736	(1,220,733)	3,460,003
Net position – deferred income tax liabilities	(3,916,074)	1,310,852	(2,605,222)

Deferred income taxes for the year ended 31 December 2016 can be summarized as follows:

In thousand drams	1 January 2016 (restated)	Recognized in profit or loss	31 December 2016 (restated)
Deferred income tax assets			
Borrowings provided	364,068	140	364,208
Inventories	117,785	(4,290)	113,495
Trade and other receivables	65,500	-	65,500
Trade and other payables	191,120	30,339	221,459
	738,473	26,189	764,662
Deferred income tax liabilities			
Property, plant and equipment	5,546,843	(866,107)	4,680,736
Loans and borrowings	99,600	(99,600)	-
	5,646,443	(965,707)	4,680,736
Net position – deferred income tax liabilities	(4,907,970)	991,896	(3,916,074)

Analyzed as:

	2017	2016 (restated)
To be redeemed after more than 12 months	2,244,461	3,449,638
To be redeemed within 12 months	360,761	466,436

14 Grants related to assets

In thousand drams

	2017	2016
Balance at the beginning of year	6,749,173	6,222,877
Received during the year	1,497,783	1,525,196
Credited to profit or loss (recognized in other income)	(419,613)	(998,900)
Balance at the end of year	7,827,343	6,749,173

Additions of grants related to assets include:

In thousand drams

	2017	2016
Government of the Republic of Armenia	44,543	521,947
Government of the Russian Federation	1,453,240	1,003,077
Other	-	172
	1,497,783	1,525,196

As described in note 1, according to the agreement signed between the Government of the Republic of Armenia and the Government of the Russian Federation, the Russian Federation has provided an intergovernmental loan to the Government of the Republic of Armenia to finance the project for extension of the exploitation period of the plant. According to the same agreement the Russian Federation had to provide grants to the Company at the amount of US dollars 30,000 thousand to finance the above project.

15 Trade and other payables

In thousand drams	As of 31 December 2017	As of 31 December 2016
Trade payables	6,878,698	11,082,508
Fees payable for plant exploitation	6,210,550	5,810,550
Taxes and duties payable	1,682,502	1,541,058
Payables to employees	1,916,606	1,456,473
Other	4,384	4,461
	16,692,740	19,895,050
Including:		
Non-current	3,539,115	-
Current	13,153,625	19,895,050

Fees payable for plant exploitation represent the amounts that the Company is obliged to transfer to the special purpose account operated by the Treasury Department of the Ministry of Finance. The aim of the account is to accumulate funds for future decommissioning of the nuclear power plant. The transfers are to be made on quarterly basis until the closure of the plant. The amounts of the transfers by the Company are established by the Public Services Regulatory Commission, as included in the annual tariffs of the electric energy.

Non-current trade payables represent amounts payable for the purchased nuclear fuel. The amount is payable until April 2019.

The average credit period on purchase of certain goods is 238 days (2016: 130 days). No interest is charged on the trade payables. The Company has financial risk management policies to ensure that all payables are paid within the credit timeframe.

Refer to note 25 for more information about the Company's exposure to foreign currency risk.

16 Revenue

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Sale of electricity	13,817,867	11,077,959
Sale of capacity	13,373,731	12,659,011
	27,191,598	23,736,970

The tariffs for electricity produced and capacity sold (VAT exclusive) were as follows:

	Electricity	Capacity
Effective date	AMD/kWh	AMD/kW
17/06/2015	4.60	3,608.78
1/8/2016	6.42	4,079.41
1/2/2017	5.60	3,598.45

17 Cost of sales

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016 (restated)
Cost of nuclear fuel	9,800,360	8,410,375
Depreciation and amortization	3,659,259	7,232,580
Employee remuneration	6,345,806	5,957,147
Cost of materials used	1,171,339	1,613,584
Maintenance and repair costs	1,023,137	1,190,061
Gas and electricity	532,076	705,189
Plant exploitation fee	400,000	400,000
Other	310,490	309,088
	23,242,467	25,818,024

18 Administrative expenses

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Employee remuneration	1,057,006	774,795
Depreciation and amortization	174,615	169,256
Business trip expenses	46,824	53,343
Postal and communication services	22,378	23,011
Mandatory payments	52,440	47,020
Other	137,154	69,964
	1,490,417	1,137,389

19 Other operating expenses

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Employee remuneration	76,852	89,457
Taxes and duties	502,416	182,480
Professional and membership fees	101,822	108,049
Trade union expenses	113,778	115,060
Depreciation and amortization	53,957	110,864
Currency exchange	18,938	65,118
Impairment loss	6,497,581	-
Fines	152,373	-
Other	16,249	58,153
	7,533,966	729,181

20 Finance income and costs

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Interest expenses on bank loans	-	(217,606)
Interest expenses on loans from the Ministry of Finance	(94,382)	(32,056)
Unwinding of discount	(61,450)	(47,196)
Total finance costs	(155,832)	(296,858)
Interest income on short-term bank deposits	415,176	50,021
Fair value gain on long-term trade payables	156,929	-
Total finance income	572,105	50,021
Net finance income/(costs)	416,273	(246,837)

21 Foreign currency translation gain/(loss), net

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Held-to-maturity investments	-	47,850
Loans and receivables	134,764	(38,368)
Financial liabilities measured at amortized cost	(61,699)	(397,823)
	73,065	(388,341)

22 Income tax recovery

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016 (restated)
Current tax	885,400	654,970
Deferred tax	(1,310,852)	(991,896)
	(425,452)	(336,926)

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2017	Effective tax rate (%)	Year ended 31 December 2016 (restated)	Effective tax rate (%)
Loss before taxation (under IFRSs)	(4,107,793)		(3,531,648)	
Tax calculated at a tax rate of 20% (2016: 20%)	(821,559)	20.00	(706,330)	20.00
(Non-taxable)/non-deductible items, net	396,107	(9.64)	369,404	(10.46)
Income tax recovery	(425,452)	10.36	(336,926)	9.54

23 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

23.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment

Management has estimated remaining useful lives of the property, plant and equipment, based on currently implemented plant life extension project, according to which, the plant can be exploited for 10 additional years after the start of the project. If actual exploitation period is extended for more than 10 years useful lives of property, plant and equipment might be different from current estimations, which may materially affect the financial statements.

24 Financial instruments

24.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.6.

24.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand drams	As of 31 December 2017	As of 31 December 2016
Held-to-maturity investments:		
Term deposits	8,948,517	3,759,871
Available-for-sale financial assets:		
Other financial assets	41,804	33,826
Loans and receivables:		
Trade and other receivables	3,302,351	2,453,845
Cash and bank balances	173,455	1,701,834
	12,466,127	7,949,376

Financial liabilities

In thousand drams	As of 31 December 2017	As of 31 December 2016
Financial liabilities measured at amortized cost:		
Loans and borrowings	33,337,853	18,885,419
Trade and other payables	15,010,238	18,353,992
	48,348,091	37,239,411

25 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

Financial risk factors

a) Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk, which result from both its operating and financing activities.

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Most of the Company's transactions are carried out in Armenian drams. Exposures to currency exchange rates arise from the Company's overseas purchases, which are primarily denominated in US dollars and Euro. The Company also has US dollar loans, which have been used to fund the current projects.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Item As of 31 December 2017	US dollar	Euro	Other
Financial assets			
Trade and other receivables	-	33,042	-
Cash and bank balances	33,310	446,799	3,538,840
	33,310	479,841	3,538,840
Financial liabilities			
Loans and borrowings	29,353,164	-	-
Trade and other payables	6,626,312	51,228	19,904
	35,979,476	51,228	19,904
Net position	(35,946,166)	428,613	3,518,936

Item As of 31 December 2016	US dollar	Euro	Other
Financial assets			
Term deposits	1,218,775	-	-
Cash and bank balances	1,469,650	12,594	6
	2,688,425	12,594	6
Financial liabilities			
Loans and borrowings	16,198,138	-	-
Trade and other payables	10,801,932	30,749	36
	27,000,070	30,749	36
Net position	(24,311,645)	(18,155)	(30)

The following table details the Company's sensitivity to a 10% (2016: 10%) increase and decrease in dram against US dollar and Euro. 10% (2016: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated

monetary items and adjusts their translation at the period end for a 10% (2016: 10%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar and Euro by 10% (2016: 10%) then this would have had the following impact:

In thousand drams	US dollar impact		Euro impact	
	2017	2016	2017	2016
Profit or loss	3,594,617	2,431,165	(42,861)	1,816

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions purchases as well as loan balances. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating rates. This risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings.

The average contract and effective interest rates are detailed in note 12.

The sensitivity analysis below has been performed for a 1% change in interest rates. 1% represents management's assessment of the possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2017 would decrease/increase by drams 33,159 thousand (2016: increase/decrease by drams 10,428 thousand);

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The effect of this risk for the Company arises from different financial instruments, such as accounts receivable, term deposits, amounts due from financial institutions, etc. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of 31 December 2017	As of 31 December 2016
Financial assets at carrying amounts		
Term deposits	8,948,517	3,759,871
Accounts receivable	3,302,351	2,453,845
Other financial assets	41,804	33,826
Bank balances	173,287	1,701,373
	12,469,959	7,948,915

The Company's trade receivables represent amounts due from only one customer. Management believes that there is no credit risk connected with the trade receivable, the balance due as of 31 December 2017 represents the amount invoiced for the month of December.

The credit risk for cash and cash equivalents as well as term deposits is considered negligible, since the counterparties are reputable banks.

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations.

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows

of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

2017	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate		2.58%	3.12%	
Less than 6 months	11,471,123	37,328	344,039	11,852,490
6 months to 1 year	-	48,188	501,748	549,936
1-5 years	3,680,886	478,216	11,778,137	15,937,239
More than 5 years	-	4,756,912	24,550,074	29,306,986
	15,152,009	5,320,644	37,173,998	57,646,651

2016	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate		2.17%	3.24%	
Less than 6 months	15,298,965	36,714	132,282	15,467,961
6 months to 1 year	3,055,027	37,322	291,878	3,384,228
1-5 years	-	370,381	7,054,655	7,425,036
More than 5 years	-	4,238,537	13,518,605	17,757,142
	18,353,992	4,682,954	20,997,421	44,034,367

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables. The Company's cash resources and trade receivables approximate current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within 1 month.

26 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26.1 Fair value measurement of financial instruments

Financial instruments measured at amortized cost for which the fair value is disclosed

In the statement of financial position fair values of financial assets and financial liabilities approximately equal their carrying amount.

Fair value has been determined by discounting the relevant cash flows using market interest rates for similar instruments, with the most significant inputs being the discount rates. The estimated fair value of the above financial assets and financial liabilities are categorized within level 3 of the fair value hierarchy.

27 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide adequate return to stakeholders.

The capital structure of the Company consists of equity comprising issued capital, reserves and accumulated profits and debt, which includes loans disclosed in note 12.

Management assesses the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Company's various classes of debt. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The amounts managed as capital by the Company for the reporting periods are summarized as follows:

In thousand drams	As of 31 December 2017	As of 31 December 2016 (restated)
Total equity	52,403,341	56,085,682
Less: cash and bank balances	(173,455)	(1,701,834)
Capital	52,229,886	54,383,848
Total equity	52,403,341	56,085,682
Borrowings	33,337,853	18,885,419
Overall financing	85,741,194	74,971,101
Capital to overall financing ratio	0.61	0.73

28 Commitments

28.1 Capital commitments

The Company has entered into contracts to purchase property, plant and equipment for drams 17,663,496 thousand.

29 Contingencies

29.1 Responsibility for the possible damage caused

Under the Vienna Convention on the Civil Responsibility for the Nuclear Damage the Company as an operator of the nuclear plant is liable for compensation of any nuclear damage caused as a result of the plant exploitation. The amount, order and terms of the compensation are determined by the legislation of the Republic of Armenia. According to the above convention the amount of compensation can be limited to maximum of US dollars 5,000,000 for each instance of damage. According to the legislation the Company is obliged to have sufficient financial resources to cover its responsibility for any possible damages caused. To meet the above requirement, the Company has to make annual allocation to a specifically designated fund at the amount of drams 150,000 thousand as included in the tariffs for the electrical energy for the Company. No provision has been recognized in respect of this obligation in the Company's financial statements, since management believes the probability of the damage to occur is remote.

29.2 Business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Deterioration of economic situation of countries collaborating with the Republic of Armenia led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Company. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

29.3 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. 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 the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Company's operations and financial position.

29.4 Taxes

The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

29.5 Environmental matters

Management is of the opinion that the Company has met the Government's requirements concerning environmental matters and, therefore, believes that the Company does not have any current material environmental liabilities. However, environmental legislation in Armenia is in process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

30 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand drams	Long-term loans	Short-term loans	Total
as of 1 January 2017	18,691,807	193,612	18,885,419
Cash-flows			
Proceeds	1,626,189	-	1,626,189
Repayments	-	(62,753)	(62,753)
Interest paid	-	(419,298)	(419,298)
Non-cash			
Direct payments to vendors	12,596,168	-	12,596,168
Interest accrual	670,081	-	670,081
Foreign exchange gain/loss	42,047	-	42,047
Reclassification	(678,958)	678,958	-
as of 31 December 2017	32,947,334	390,519	33,337,853

31 Related parties

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

31.1 Control relationships

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

31.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand drams

Transactions	Year ended 31 December 2017	Year ended 31 December 2016
Shareholder		
Loans received	14,222,357	14,274,176
Accrual of interest expenses	670,081	266,156
Entities under common control		
Acquisition of fixed assets	74,633	171,083
Acquisition of goods and services	137,164	61,186
Key management		
Salary and other benefits	65,380	48,948

In thousand drams

Outstanding balances	As of 31 December 2017	As of 31 December 2016
Shareholder		
Loans and borrowings	33,337,853	18,885,419
Entities under common control		
Trade and other payables	1,584	-
Trade and other receivables	-	20,000
Key management		
Trade and other payables	50,464	40,750

32 Restatement of comparative financial statements

During 2017 the Company decided to restate the financial statements of prior year according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors due to discovery of errors related to previous years. As a result of the above, the Company's management decided to make relevant adjustments in these financial statements, which were applied retrospectively based on the policy adopted by the Company (refer to note 2.6).

The details of adjustments are as follows:

1. The Company derecognized previously recorded provisions for the dry storage of spent nuclear fuel, since the amounts recognized did not meet the definition of a provisions in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
2. Certain expenses have been capitalized to the cost of construction in progress in prior years. After detailed examination of the above costs management decided those costs were not eligible for capitalization, since those were not incremental, hence recognized them as an expense in the periods the expenses were incurred.
3. As a result of the above adjustments a necessity to adjust deferred taxes has arisen.
4. Balances of input and output VAT as of 31 December 2016 that have been previously presented on net basis, have been restated to be reflected on gross basis.

In thousand drams	As of 31 December 2016		
	According to previous statement	Restatement	Restated balance
Assets			
Non-current assets			
Property, plant and equipment	66,025,067	(251,377)	65,773,690
Intangible assets	272,770	-	272,770
Non-current prepayments	2,341,209	-	2,341,209
Other financial assets	33,826	-	33,826
	68,672,872		68,421,495
Current assets			
Inventories	26,133,166	-	26,133,166
Trade and other receivables	4,278,818	945,628	5,224,446
Current income tax assets	361,854	(71,268)	290,586
Term deposits	3,759,871	-	3,759,871
Cash and bank balances	1,701,834	-	1,701,834
	36,235,543		37,109,903
Total assets	104,908,415		105,531,398
Equity and liabilities			
Capital and reserves			
Share capital	14,663,599	-	14,663,599
Reserve capital	954,943	-	954,943
Capital contribution	1,585,206	-	1,585,206
Accumulated profit	31,673,134	7,208,800	38,881,934
	48,876,882		56,085,682
Non-current liabilities			
Loans and borrowings	18,691,807	-	18,691,807
Deferred income tax liabilities	2,553,068	1,363,006	3,916,074
Grants related to assets	6,749,173	-	6,749,173
Provisions	8,894,451	(8,894,451)	-
	36,888,499		29,357,054
Current liabilities			
Loans and borrowings	193,612	-	193,612
Trade and other payables	18,949,422	945,628	19,895,050
	19,143,034		20,088,662
Total equity and liabilities	104,908,415		105,531,398

In thousand drams	As of 1 January 2016		
	According to previous statement	Restatement	Restated balance
Assets			
Non-current assets			
Property, plant and equipment	60,388,299	(115,736)	60,272,563
Intangible assets	176,097	-	176,097
Non-current prepayments	2,341,209	-	2,341,209
Other financial assets	33,826	-	33,826
	62,939,431		62,823,695
Current assets			
Inventories	19,124,194	-	19,124,194
Trade and other receivables	10,737,345	-	10,737,345
Cash and bank balances	3,768,172	-	3,768,172
	33,629,711		33,629,711
Total assets	96,569,142		96,453,406
Equity and liabilities			
Capital and reserves			
Share capital	14,670,349	-	14,670,349
Reserve capital	954,943	-	954,943
Capital contribution	1,585,206	-	1,585,206
Accumulated profit	35,934,581	6,142,075	42,076,656
	53,145,079		59,287,154
Non-current liabilities			
Loans and borrowings	7,279,411	-	7,279,411
Deferred income tax liabilities	3,273,441	1,634,529	4,907,970
Grants related to assets	6,222,877	-	6,222,877
Provisions	7,877,256	(7,877,256)	-
	24,652,985		18,410,258
Current liabilities			
Loans and borrowings	5,093,438	-	5,093,438
Trade and other payables	13,233,346	(1)	13,233,345
Current income tax liabilities	444,294	(15,083)	429,211
	18,771,078		18,755,994
Total equity and liabilities	96,569,142		96,453,406

Details of effect on retained earnings is disclosed below

In thousand drams	As of 31 December 2016	As of 1 January 2016
Derecognition of provision	8,894,451	7,877,256
Expensing of previously capitalized costs	(251,377)	(115,736)
Adjustment to deferred taxes connected with derecognition of provisions	(1,363,006)	(1,634,529)
Adjustment to current income taxes	(71,268)	15,083
Adjustment to payable balance	-	1
	7,208,800	6,142,075