Foundation for Armenian Science and Technology

Consolidated financial statements

for the year ended 31 December 2020
together with independent auditor's report

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Independent auditor's report

To the Board of Trustees of
Foundation for Armenian Science and Technology

Opinion

We have audited the consolidated financial statements of Foundation for Armenian Science and Technology and its subsidiary (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (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 and the Board of Trustees for the consolidated financial statements

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

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In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Trustees 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

General Director
Partner (Assurance) Eric Hayrapetyan

05 May 2021

Consolidated statement of financial position

As at 31 December 2020

(in thousands of Armenian drams)

	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property and equipment	6	182,624	217,973
Intangible assets	7	6,786	6,152
Prepayments	9	17,135	–
		206,545	**224,125**
Current assets			
Cash and cash equivalents	8	173,711	217,374
Prepayments	9	3,605	14,944
Financial assets measured at FVPL	10	9,704	–
Inventories		1,689	460
		188,709	**232,778**
Total assets		**395,254**	**456,903**
Non-current liabilities			
Lease liability	11	9,536	18,591
Financial liabilities from SAFE agreements	12	9,256	–
Endowment funds	13	113,163	147,684
		131,955	**166,275**
Current liabilities			
Restricted funds	13	6,344	138,616
Endowment funds	13	76,150	76,441
Lease liability	11	9,996	8,086
Advances received		1,232	1,669
Accounts payable and provisions	14	31,288	63,712
		125,010	**288,524**
Total liabilities		**256,965**	**454,799**
Equity			
Retained earnings		138,289	2,104
Total equity		**138,289**	**2,104**
Total equity and liabilities		**395,254**	**456,903**

The consolidated financial statements were authorised for issue by the Board of Trustees and signed on its behalf by:

Armen Orujyan — Founding CEO

Armine Sahakyan — Director
"PHILIN AM" LLC

05 May 2021

The accompanying notes on pages 5 to 20 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2020

(in thousands of Armenian drams)

	Notes	*2020*	*2019*
Incoming resources from restricted funds	15	157,166	59,454
Incoming resources from unrestricted funds	15	563,252	824,042
Incoming resources from endowment funds	15	69,586	66,744
Other income		1,899	4,169
Administrative and other expenses	16	(553,377)	(671,800)
Project related expenses	17	(118,446)	(278,481)
Operating profit		**120,080**	**4,128**
Income on initial recognition of financial liabilities	12	3,284	–
Interest expense		(3,255)	(4,128)
Net gain on foreign exchange translation		16,102	1,284
Profit before tax		**136,211**	**1,284**
Income tax expense		(26)	–
Profit for the year		**136,185**	**1,284**
Total comprehensive income for the year		**136,185**	**1,284**

The accompanying notes on pages 5 to 20 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2020

(in thousands of Armenian drams)

	Total equity
Retained earnings as of 1 January 2019	**820**
Total comprehensive income for the year	1,284
Retained earnings as of 31 December 2019	**2,104**
Total comprehensive income for the year	136,185
Retained earnings as of 31 December 2020	**138,289**

The accompanying notes on pages 5 to 20 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2020

(in thousands of Armenian drams)

	Notes	*2020*	*2019*
Cash flows from operating activities			
Cash receipts from donors	15	622,920	1,071,237
Cash receipts from sale of tickets and provided trainings		1,424	5,838
Cash paid to suppliers and employees		(514,028)	(751,575)
Taxes paid other than income tax		(127,751)	(111,143)
Net cash (used in) / from operating activities		**(17,435)**	**214,357**
Cash flows from investing activities			
Investment in financial assets measured at FVPL	10	(9,704)	–
Purchase of property and equipment	6	(30,506)	(13,539)
Purchase of intangible assets	7	(4,365)	(4,849)
Net cash used in investing activities		**(44,575)**	**(18,388)**
Cash flows from financing activities			
Proceeds from SAFE agreements		12,486	–
Payment of principal portion of lease liability	11	(7,145)	(7,723)
Interest paid on lease liability	11	(3,201)	(4,128)
Net cash from / (used in) financing activities		**2,140**	**(11,851)**
Effect of exchange rates changes on cash and cash equivalents		16,207	1,284
Net (decrease)/increase in cash and cash equivalents		**(43,663)**	**185,402**
Cash and cash equivalents at the beginning of the year	8	217,374	31,972
Cash and cash equivalents at the end of the year	8	**173,711**	**217,374**

The accompanying notes on pages 5 to 20 are an integral part of these consolidated financial statements.

(in thousands of Armenian drams)

1. Corporate information

Foundation for Armenian Science and Technology (the "Foundation") is the parent company in the Group. It was incorporated in the Republic of Armenia on 20 June 2017 as a not-for-profit organization and was set up in accordance with regulations of the Republic of Armenia.

The Founders of the Group are as follows:

- ► RVVZ Foundation;
- ► "AYB" Educational Foundation;
- ► Arthur Alaverdian;
- ► "Luys" cultural, scientific, educational foundation;
- ► Noubar Boghos Afeyan.

The Board consists of 7 members. As at 31 December 2020 the Foundation had 34 employees.

Foundation is conceived as a comprehensive platform to foster the technological and scientific breakthrough in Armenia and beyond. Foundation aims to revive the Armenia's strong science, technology, engineering and mathematics traditions, establishing a favourable regime for the innovative environment, fostering science and technology education, and actively developing a venture capital ecosystem. One of the most pivotal tasks of Foundation is to engage tech and scientific communities in raising the profile of Armenia as a hub for technological and scientific discoveries and developments.

The Foundation's address is Hakob Hakobyan str., 3 Building, Yerevan, 0033, Republic of Armenia.

On 30 October 2020 FAST founded a subsidiary company "Advanced Solutions Center" CJSC (the "Subsidiary") with 100% ownership. The Subsidiary is a Venture Builder company. The main activity performed by Subsidiary is the provisions of services, alienation of goods, research and development in the fields of artificial intelligence and data science, computational behavioural research, life sciences, advanced materials and robotics. The Subsidiary has fully owned subsidiary company Denovo Sciences CJSC, which is an IT start-up company.

The Foundation consolidates the financial statements.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost basis, except for Financial assets measured at FVPL that have been measured at fair value as disclosed in the accounting policies below.

The consolidated financial statements are presented in thousands of Armenian drams and all values are rounded to the nearest thousand, unless otherwise indicated.

3. Summary of significant accounting policies

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ► Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ► Exposure, or rights, to variable returns from its involvement with the investee;
- ► The ability to use its power over the investee to affect its returns.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks.

Advance payments

The Group receives advance payments in the scope of organised projects, which are carried at original invoice amount and generally are short term.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of an asset begins when the asset is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Class	*Useful lives in yeas*
Machinery and equipment	5-8 years
Vehicles	10 years
Office equipment	5-8 years
Other fixed assets	5-8 years
Leasehold improvement	Shorter of useful life and the term of underlying lease

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and maintenance are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

When each major inspection is performed, its cost is recognized as a component in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income or expense in the year the asset is derecognized.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of comprehensive income in the year in which the expenditure is incurred.

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

Intangible assets with indefinite useful lives are not amortized but tested for impairment annually either individually, or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The useful life of the intangible assets should be calculated since the asset becomes ready to use. The amortization ends on earlier of the dates:

a) When the intangible asset is classified as held for sale;

b) When the intangible asset is derecognized.

The terms for useful life are as follows:

Class	***Useful lives in yeas***
Software	5-8 years
Licenses	1-5 years
Other intangible assets	5-10 years

Financial assets and liabilities

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The Group has financial assets such as cash and cash equivalents, which arise directly from its operations. Also, the Group has financial assets measured at FVTPL.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding. IFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. The allowance for bank accounts and deposits is calculated based on bank's Long-term counterparty risk rating.

Financial liabilities are initially recognized at fair value less directly attributable transaction costs and have not been designated as 'at fair value through profit or loss'.

The Group's principal financial liabilities comprise accounts payable, financial lease liabilities and financial liabilities arising from single agreements on future equity.

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Leases

The Group as a lessee

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

Accounts payable and provisions

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method.

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss for the year.

Incoming resources

Restricted income funds are received for particular purpose and are not available for general use of the Group. These funds are initially recorded as a liability and recognized as revenue in the consolidated statement of comprehensive income as long as the Group performs obligations prescribed by restricted funds donations agreements. As a rule revenue from such donations are recognized simultaneously with related costs incurred to perform obligations.
One form of restricted funds is an “Endowment fund”, which provided to finance acquisition of property and equipment and intangible assets to be used in the Group’s activities. Endowment Fund donations are recorded initially as a liability and recognized as revenue in the consolidated statement of comprehensive income in line with recognition of depreciation and amortization expenses for respective assets. Unrestricted income funds are available for the general purposes as set out in Group’s governing documents. Therefore, donations into the Unrestricted funds are recognized as revenue when there is sufficient evidence that a promise to donate was made and received.

Revenue recognition

Revenue is recognized in manner that depicts the pattern of transfer of goods and services to customers. The amount recognized should reflect the amount to which the entity expects to be entitled in exchange for those goods and services. In order to meet the core principle of revenue recognition Group applies the following five-step model:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct;
- Determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer;
- Allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract;
- Recognize revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied.

Equity

Equity of the Group at each reporting date represents its net assets at that date and generally consists from accumulated foreign exchange gains or losses. Net assets of the Group are not distributable to its founders neither in ordinary course of business nor at liquidation.

Expenditures

Fees, commissions and other expenses are generally recorded on an accrual basis when the service has been provided. Expenditures are recorded based on the applicable service contracts.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

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 respective services were rendered by the employees of the Group. Employees receive pension benefits from the State pension fund of the Republic of Armenia in accordance with the laws and regulations. Contributions are made by the Group to the Government's Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Foreign currency transactions

The consolidated financial statements are presented in Armenian dram, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to general unrestricted income funds. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of Central Bank of Armenia on the date of the transaction are included in gains less losses from forex operations. The official CBA exchange rates as of 31 December 2020 and as of 31 December 2019 were as follows: 522.59 drams to 1 USD, 641.11 drams to 1 EUR and 7.02 drams to 1 RUR, respectively and 479.70 drams to 1 USD, 537.26 drams to 1 EUR and 7.77 drams to 1 RUR, respectively.

Changes in accounting policies

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of amendments is described below:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The *Conceptual Framework* is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the *Conceptual Framework* is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the *Conceptual Framework*. The revised *Conceptual Framework* includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on consolidated financial statements of the Group.

(in thousands of Armenian drams)

4. Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Useful life of property and equipment

The Group assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property and equipment recognized in endowment funds.

Impairment of assets and accounting for provisions

The Group regularly reviews its assets to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss where needed. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of counterparties, or national or local economic conditions that correlate with defaults on assets. The Group uses its experienced judgment to adjust observable data for assets to reflect current circumstances.

Leases − estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

5. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations − Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

(in thousands of Armenian drams)

5. Standards issued but not yet effective (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3 (continued)

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

(in thousands of Armenian drams)

6. Property and equipment

Property and equipment and related accumulated depreciation consist of the following:

	Machinery and equipment	*Vehicles*	*Leasehold improvement*	*Office equipment*	*Right-of-use assets*	*Other*	*Total*
Cost							
Balance as at 1 January 2019	**32,492**	**19,898**	**125,821**	**52,354**	**34,400**	**23,641**	**288,606**
Additions	4,489	–	4,029	2,973	–	2,048	**13,539**
Transfers	(878)	–	–	(3,262)	–	(342)	**(4,482)**
Balance as at 31 December 2019	**36,103**	**19,898**	**129,850**	**52,065**	**34,400**	**25,347**	**297,663**
Additions	18,357	–	7,579	2,876	–	1,694	**30,506**
Disposals and write-offs	–	–	–	–	–	(764)	**(764)**
Balance as at 31 December 2020	**54,460**	**19,898**	**137,429**	**54,941**	**34,400**	**26,277**	**327,405**
Accumulated depreciation							
Balance as at 1 January 2019	**(3,695)**	**(2,060)**	**(10,292)**	**(2,357)**	**–**	**(897)**	**(19,301)**
Depreciation charge	(11,265)	(1,990)	(29,572)	(6,405)	(8,600)	(2,959)	**(60,791)**
Disposals and write-offs	12	–	–	344	–	46	**402**
Balance as at 31 December 2019	**(14,948)**	**(4,050)**	**(39,864)**	**(8,418)**	**(8,600)**	**(3,810)**	**(79,690)**
Depreciation charge	(13,079)	(1,990)	(31,454)	(6,832)	(8,600)	(3,311)	**(65,266)**
Disposals and write-offs	–	–	–	–	–	175	**175**
Balance as at 31 December 2020	**(28,027)**	**(6,040)**	**(71,318)**	**(15,250)**	**(17,200)**	**(6,946)**	**(144,781)**
Net book value							
Balance as at 31 December 2019	**21,155**	**15,848**	**89,986**	**43,647**	**25,800**	**21,537**	**217,973**
Balance as at 31 December 2020	**26,433**	**13,858**	**66,111**	**39,691**	**17,200**	**19,331**	**182,624**

The gross book value of fully depreciated property and equipment that is still in use is 2,748 as at 31 December 2020 (2019: 58).

(in thousands of Armenian drams)

7. Intangible assets

Intangible assets and related accumulated amortization consist of the following:

	Software	*Web-site development*	*Licenses*	*Total*
Cost				
Balance as at 1 January 2019	**4,287**	**760**	**1,222**	**6,269**
Additions	691	3,357	801	**4,849**
Balance as at 31 December 2019	**4,978**	**4,117**	**2,023**	**11,118**
Additions	2,327	75	1,963	**4,365**
Write-offs	(1,587)	(1,394)	(1,753)	**(4,734)**
Balance as at 31 December 2020	**5,718**	**2,798**	**2,233**	**10,749**
Accumulated amortization				
Balance as at 1 January 2019	**(1,529)**	**(760)**	**(804)**	**(3,093)**
Amortization charge	(576)	(266)	(1,031)	**(1,873)**
Balance as at 31 December 2019	**(2,105)**	**(1,026)**	**(1,835)**	**(4,966)**
Amortization charge	(2,193)	(295)	(1,234)	**(3,722)**
Write-offs	1,587	1,394	1,744	**4,725**
Balance as at 31 December 2020	**(2,711)**	**73**	**(1,325)**	**(3,963)**
Net book value				
Balance as at 31 December 2019	**2,873**	**3,091**	**188**	**6,152**
Balance as at 31 December 2020	**3,007**	**2,871**	**908**	**6,786**

The gross book value of fully amortized intangible assets that is still in use is 4,539 as at 31 December 2020 (2019: 3,499).

8. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Currency	*31 December 2020*	*31 December 2019*
Current accounts in banks	USD	140,425	189,327
Current accounts in banks	AMD	23,844	28,047
Current accounts in banks	RUR	9,442	–
Cash and cash equivalents		**173,711**	**217,374**

Current accounts are held at Ameriabank CJSC, which has a Long-term counterparty risk rating of Ba3.

9. Prepayments

Prepayments comprise the following:

	31 December 2020	*31 December 2019*
Non-current prepayments		
Prepayments for purchase of property and equipment	17,135	–
	17,135	**–**
Current prepayments		
Prepayments for insurance	2,617	3,034
Prepayments for web-site development	–	5,264
Prepayments for professional services	–	2,970
Advance payments to employees	–	452
Other prepayments	988	3,224
	3,605	**14,944**
Total prepayments	**20,740**	**14,944**

(in thousands of Armenian drams)

10. Financial assets measured at fair value through profit or loss

During 2020 the Group concluded investment contracts with four IT start-up companies for future fixed number of preference shares, without voting rights. The duration of contracts is one year, within this period the Group has a right to request companies to make respective changes in their charter and issue fixed number of preference shares with nominal value. The additional paid amount will be recognized as Share premium. If during this one-year period the Group does not use its right, the paid amount will be regarded as donation (donated asset).

The financial assets arising from prepayments made on concluded agreements are measured at fair value through profit or loss. As at 31 December 2020 the balance of financial assets is equal to 9,704.

11. Lease liability

Set out below, are the carrying amounts of the Group's lease liabilities and the movements during the period:

	2020	***2019***
As at 1 January	**26,677**	**34,400**
Additions	–	–
Interest expense	3,201	4,128
Payments	(10,346)	(11,851)
As at 31 December	**19,532**	**26,677**

The weighted average incremental borrowing rate applied to lease liability recognized at the date of initial application is 12%.

The Group had total cash outflows for leases of 10,346 in 2020 (2019: 11,851).

12. Financial liabilities from SAFE agreements

In 2020 the Subsidiary concluded single agreements on future equity (SAFE) with eight individuals. The duration of contracts is three years. During this period, depending on the events specified in the agreement, the investor will either receive a right to preference shares in the Subsidiary or the prepayment will be refunded. During 2020 the prepayments were made for three agreements in total amount of 12,486. The balance of financial liabilities from SAFE agreements comprises the amortized cost of received prepayments as at 31 December 2020 in the amount of 9,256 (2019:0).

The following table shows a reconciliation of the opening and closing balance of the amortized cost of financial liabilities from SAFE agreements:

	Financial liabilities from SAFE agreements
As at 1 January 2020	**–**
Proceeds from issue	12,486
Income on initial recognition	(3,284)
Accrued Interest expense	54
As at 31 December 2020	**9,256**

The weighted average incremental borrowing rate applied to financial liabilities from SAFE agreements at the date of initial recognition is 11%.

13. Restricted and unrestricted funds

Restricted income funds are received for particular purpose of donations and are not available for general use of the Group. The amount of restricted income funds that will be used in future for its particular designated purpose as at 31 December 2020 equals 6,344 (2019: 138,616).

One form of a restricted fund is an "endowment". This fund represents restricted donations invested into acquisition of property and equipment and intangible assets for the use in ordinary activities of the Group. The amount of endowment funds as at 31 December 2020 equals 189,313 (2019: 224,125).

(in thousands of Armenian drams)

13. Restricted and unrestricted funds (continued)

Unrestricted income funds are available for the general purposes of donations as set out in the Group's governing documents. The general fund is free to use for any of the donation's purposes.

Gain from exchange differences from income funds received for the year ended 31 December 2020 equals 16,207 (2019: 1,284).

14. Accounts payable and provisions

Accounts payable and provisions comprise the following:

	31 December 2020	*31 December 2019*
Unused vacation reserve	18,354	47,512
Tax payables	10,343	14,550
Trade payables	1,540	1,237
Other	1,051	413
Total accounts payable and provisions	**31,288**	**63,712**

Accounts payable are mainly denominated in AMD, are non-interest bearing and are generally on 30-60 days term.

The movements in unused vacation reserve were as follows:

	Unused vacations
At 1 January 2019	**25,518**
Accrued during the year	47,787
Extinguished	(25,793)
At 31 December 2019	**47,512**
Accrued during the year	39,814
Extinguished	(68,972)
At 31 December 2020	**18,354**

15. Incoming resources from donations

Resources received from donations comprise:

	2020	*2019*
Individuals	265,365	239,102
Armenian companies	210,073	800,920
Foreign companies	147,482	31,215
Total resources received from donations	**622,920**	**1,071,237**

Resources recognized as incoming resources from unrestricted donations in the Statement of comprehensive income for 2020 in the amount of 563,252 (2019: 824,042) represent the donations used during the reporting period. Resources recognized as incoming resources from restricted donations in the Statement of comprehensive income for 2020 in the amount of 157,166 (2019: 59,454) represent the donations used during the reporting period. Resources recognized as incoming resources from endowment donations in the Statement of comprehensive income for 2020 equal 69,586 (2019: 66,744).

(in thousands of Armenian drams)

16. Administrative and other expenses

Administrative and other expenses comprise the following:

	2020	*2019*
Staff costs	338,683	411,748
Depreciation and amortization	68,988	62,664
Vacation reserve costs	39,814	47,787
Business trip and representative expenses	21,871	57,521
Banking and insurance expenses	11,208	4,819
Professional services	11,135	5,160
Office supplies and utility costs	5,796	11,433
Marketing expenses	3,675	6,723
Post and communication	3,417	4,069
Loss on property and equipment write-off	589	4,080
Other	48,201	55,796
Total administrative and other expenses	**553,377**	**671,800**

17. Project related expenses

Project related expenses comprise the following:

	2020	*2019*
Staff costs	101,410	42,085
Fellowship expenses	8,005	30,137
Event organization expenses	1,688	72,860
Marketing expenses	844	30,084
Travelling expenses	676	44,772
Travel grants expenses	144	34,186
Rental expenses	−	6,480
Other	5,679	17,877
Total project related expenses	**118,446**	**278,481**

18. Commitments, contingencies and operating risks

Operating environment of the Group

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. 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.

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

Legal proceedings

During the year, the Group was not involved in court proceedings arising in the ordinary course of its activity. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have any effect on the result of operations or financial position of the Group, and which have not been accrued or disclosed in these consolidated financial statements.

19. Financial risk management

The Group's principal financial assets comprise cash and cash equivalents and financial assets measured at FVPL. The main purpose of these financial instruments is to use them for Group's donation activity and implementation of projects. The Group has also financial liabilities such as accounts payable, which arise directly from its operations, financial lease liabilities and financial liabilities arising from single agreements on future equity.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Trustees monitors each of these risks which are summarized below.

(in thousands of Armenian drams)

19. Financial risk management (continued)

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Foreign exchange risk

The Group attracts significant foreign currency denominated donations from donors, therefore it is exposed to foreign exchange risk in that respect. In the period from 1 January 2020 till 31 December 2020 the Group had significant currency transactions regarding payments for services and equipment.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, will all other variables held constant, of the Group's profit (due to changes in the carrying amount of monetary assets and liabilities).

2020	***Change in rate, (%)***	***Effect on profit***
US Dollar	5	7,201
RUR	16	1,511
US Dollar	(5)	(7,201)
RUR	(16)	(1,511)

2019	***Change in rate, (%)***	***Effect on profit***
US Dollar	3	5,648
Euro	6,5	44
US Dollar	(3)	(5,648)
Euro	(6,5)	(44)

The Group does not have any arrangements to mitigate foreign exchange risks of the Group's operations and is exposed to foreign exchange risk to the extent of open currency position.

Credit risk

The Group cooperates only with recognized, creditworthy third parties.

The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of respective financial instruments.

Liquidity risk

The Group conducts ongoing monitoring of risk of losses resulting from its inability to fulfil its financial obligations in full due to shortage of liquidity assets.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2020 and 2019 based on contractual undiscounted repayment obligations.

	Demand and less than 1 month	***From 1 to 3 months***	***From 4 to 12 months***	***More than 1 year***	***Total***
As of 31 December 2020					
Lease liabilities	1,881	1,881	8,465	10,680	**22,907**
Financial liabilities from SAFE agreements	–	–	–	12,486	**12,486**
Accounts payables	–	1,540	–	–	**1,540**
Total undiscounted financial liabilities	**1,881**	**3,421**	**8,465**	**23,166**	**36,933**

	Demand and less than 1 month	***From 1 to 3 months***	***From 4 to 12 months***	***More than 1 year***	***Total***
As of 31 December 2019					
Lease liabilities	941	1,881	8,465	21,967	**33,254**
Financial liabilities from SAFE agreements	–	–	–	–	**–**
Accounts payables	–	1,237	–	–	**1,237**
Total undiscounted financial liabilities	**941**	**3,118**	**8,465**	**21,967**	**34,491**

(in thousands of Armenian drams)

20. Fair value of financial instruments

Fair values of cash and cash equivalents and accounts payable approximate their carrying amounts due to their short maturity.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value hierarchy for financial instruments measured at value, which approximates their fair values as at 31 December 2020:

	Carrying value	*Total fair value*	*Level 1*	*Level 3*
Assets for which fair values are disclosed				
Cash and cash equivalents	**173,711**	**173,711**	173,711	–

	Carrying value	*Total fair value*	*Level 1*	*Level 3*
Liabilities for which fair values are disclosed				
Lease liability	**19,532**	**19,532**	–	19,532
Financial liabilities from SAFE agreements	**9,256**	**9,256**	–	9,256
Other financial payables	**1,540**	**1,540**	–	1,540

Fair value hierarchy for financial instruments measured at value, which approximates their fair values as at 31 December 2019:

	Carrying value	*Total fair value*	*Level 1*	*Level 3*
Assets for which fair values are disclosed				
Cash and cash equivalents	**217,374**	**217,374**	217,374	–

	Carrying value	*Total fair value*	*Level 1*	*Level 3*
Liabilities for which fair values are disclosed				
Lease liability	**26,677**	**26,677**	–	26,677
Other financial payables	**1,237**	**1,237**	–	1,237

21. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's Founders are disclosed in Note 1. Other related parties represent entities related to the Founders. Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties.

(in thousands of Armenian drams)

21. Related party transactions (continued)

The volumes of related party transactions, related expenses and income for the period from 1 January 2020 till 31 December 2020 are as follows:

	Key management personnel	***Other related parties***
Statement of financial position		
Cash and cash equivalents	–	173,711
Statement of comprehensive income		
Administrative and other expenses (Staff costs)	287,428	–
Administrative and other expenses (Other expenses)	–	100
Statements of cash flows		
Cash receipts from donors	263,732	210,073

The volumes of related party transactions, related expense and income for the period from 1 January 2019 till 31 December 2019 are as follows:

	Key management personnel	***Other related parties***
Statement of financial position		
Cash and cash equivalents	–	217,374
Advances received	–	119
Statement of comprehensive income		
Administrative and other expenses (Staff costs)	324,841	–
Administrative and other expenses (Other expenses)	–	1,108
Statements of cash flows		
Cash receipts from donors	238,010	795,092

The Group enters into transactions with related parties under terms equivalent to those that prevail in arm's length transactions. Most of related party transactions relate to charity donations received. Outstanding balances at year-end are unsecured and settlement occurs in cash.

22. Changes in liabilities arising from financing activities

	Note	***Lease liability***	***Financial liabilities from SAFE agreements***	***Total liabilities from financing activities***
Carrying amount at 1 January 2019		**–**	**–**	**–**
Recognition of lease liability	11	34,400	–	**34,400**
Payment of principal portion of lease liability	11	(7,723)	–	**(7,723)**
Interest paid on lease liability	11	(4,128)	–	**(4,128)**
Other		4,128	–	**4,128**
Carrying amount at 31 December 2019		**26,677**	**–**	**26,677**
Payment of principal portion of lease liability	11	(7,145)	–	**(7,145)**
Interest paid on lease liability	11	(3,201)	–	**(3,201)**
Proceeds from SAFE agreements	12	–	12,486	**12,486**
Other		3,201	(3,230)	**(29)**
Carrying amount at 31 December 2020		**19,532**	**9,256**	**28,788**

The "Other" line includes the effect of income on initial recognition of liabilities arising from SAFE agreements, the related accrued interest, and accrued interest on lease liability.

23. Events after the reporting period

There were no events after the reporting period that may require adjustment of or disclosure in the Group's consolidated financial statements for the year ended 31 December 2020.