Foundation for Armenian Science and Technology

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2018

Contents

Independent Auditor's Report

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

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Foundation for Armenian Science and Technology (the "Foundation") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Foundation's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of activities for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the financial statements in the Republic of Armenia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 International Financial Reporting Standards, 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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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 Foundation'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 Foundation 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.

Michael Ahern	Lusine Tarlamazyan
Managing Partner	Auditor

PricewaterhouseCoopers Armenia LLC

22 March 2019
Yerevan, Republic of Armenia

Foundation for Armenian Science and Technology
Statement of Financial Position

In thousands of Armenian drams	**Note**	**31 December 2018**	**31 December 2017**
ASSETS			
Non-current assets			
Property, plant and equipment	7	234,905	30,598
Intangible assets	8	3,176	1,629
Total non-current assets		**238,081**	**32,227**
Current assets			
Inventories		1,568	638
Prepayments		11,247	1,543
Cash and cash equivalents	9	31,972	65,971
Total current assets		**44,787**	**68,152**
TOTAL ASSETS		**282,868**	**100,379**
LIABILITIES			
Non-current liabilities			
Endowment funds	10	186,715	30,299
Total non-current liabilities		**186,715**	**30,299**
Current liabilities			
Endowment funds	10	51,366	1,928
Unrestricted funds	10	3,663	-
Restricted funds	10	-	55,680
Trade and other payables	11	40,304	11,652
Total current liabilities		**95,333**	**69,260**
TOTAL LIABILITIES		**282,048**	**99,559**
NET ASSETS		**820**	**820**
TOTAL LIABILITIES AND NET ASSETS		**282,868**	**100,379**

Approved for issue and signed on 22 March 2019.

Armen Orujyan
Founding CEO

Anna Grigoryan
"Smart Consulting" LLC
Finance Director

In thousands of Armenian drams	Note	2018	20 June – 31 December 2017
Incoming resources from restricted funds		57,101	-
Incoming resources from unrestricted funds		570,271	182,721
Incoming resources from endowment funds		21,430	964
Gross income		**648,802**	**183,685**
Administrative expenses	10,12	(503,679)	(145,563)
Project related expenses	10,13	(145,123)	(37,302)
Operating results		**-**	**820**
RESULTS FOR THE YEAR/PERIOD		**-**	**820**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE RESULTS FOR THE YEAR/PERIOD		**-**	**820**

The accompanying notes on pages 5 to 21 are an integral part of these financial statements.

In thousands of Armenian Drams	**Net assets**
At 20 June 2017	**-**
Results for the period	820
Total comprehensive results for the period	820
Balance at 31 December 2017	**820**
Results for the year	-
Total comprehensive results for the year	-
Balance at 31 December 2018	**820**

In thousands of Armenian drams	Note	2018	20 June – 31 December 2017
Cash flows from operating activities			
Cash receipts from donors	10	800,879	270,212
Cash paid to suppliers and employees		(506,928)	(157,071)
Taxes paid		(98,396)	(14,787)
Net cash from operating activities		**195,555**	**98,354**
Cash flows from investing activities			
Purchases of property, plant and equipment		(224,481)	(30,983)
Purchase of intangible assets		(4,752)	(2,208)
Net cash used in investing activities		**(229,233)**	**(33,191)**
Effect of exchange rate changes on cash and cash equivalents		(321)	808
Cash and cash equivalents at the beginning of the year/period	9	**65,971**	**-**
Cash and cash equivalents at the end of the year/period	9	**31,972**	**65,971**

1 Foundation for Armenian Science and Technology and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for Foundation for Armenian Science and Technology (the "Foundation").

The Foundation was incorporated and is domiciled in the republic of Armenia on 20 June 2017 as a non for profit organization and was set up in accordance with regulations of the Republic of Armenia.

Principal activity. 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.

Registered address and place of business. The Foundation's registered address is Meliq Adamyan 2/2, Yerevan 0010, Republic of Armenia.

Presentation currency. These financial statements are presented in Armenian Drams, unless otherwise stated.

2 Operating Environment of the Foundation

Republic of Armenia. The Republic of Armenia displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

The economic environment of the Republic of Armenia is significantly influenced by the level of business activity in the Russian Federation. Significant cash movements flow from the Russian Federation to the Republic of Armenia and therefore a decline in business activity, stock market volatility and other risks experienced in the Russian Federation could have a flow-on negative effect on the financial and corporate sectors of the Republic of Armenia.

This operating environment might have a significant impact on the Foundation's operations and financial position. Management is taking necessary measures to ensure sustainability of the Foundation's operations. However, the future effects of the current economic situation are difficult to predict, and management's current expectations and estimates could differ from actual results.

The future economic development of the Republic of Armenia is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Foundation's business in the current business and economic environment.

3 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. The principal accounting policies in respect of financial instruments applied till 31 December 2017 are presented below.

3 Significant Accounting Policies (Continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Foundation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Foreign currency translation. The functional currency of the Foundation and the Foundation's presentation currency is the national currency of the Republic of Armenia, Armenian Dram ("AMD"). Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of the Republic of Armenia ("the CBA") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates of the CBA are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2018, the principal rate of exchange used for translating foreign currency balances was USD 1 = AMD 483.75, EUR 1 = AMD 553.65 (2017: USD 1 = AMD 484.1, EUR 1 = AMD 580.1).

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Foundation and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

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

Depreciation. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Machinery and equipment	8 years
Vehicle	5 years
Office equipment	8 years
Other fixed assets	8 years
Leasehold improvements	Shorter of useful life and the term of the underlying lease

The residual value of an asset is the estimated amount that the Foundation would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3 Significant Accounting Policies (Continued)

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

Impairment of non-financial assets. Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units).

Classification of financial instruments. The Foundation's adoption of IFRS 9 "Financial Instruments" from 1 January 2018 led to changes in accounting policies. The transition to IFRS 9 did not have a significant effect on the Foundation's financial statements. The Foundation applied the new rules from 1 January 2018 with the practical expedients permitted under the standard. Comparatives for 2017 were not restated.

Business model as a tool for classifying financial instruments. The classification of financial assets for measurement purposes depends on the business model for managing those assets in order to generate cash flows and contractual cash flow characteristics of the asset. IFRS 9 prescribes the following:

a) Hold to collect model: holding financial assets to collect contractual cash flows, where those cash flows solely represent payments of principal and interest.

b) Hold to collect and sell model: holding financial assets to collect contractual cash flows and selling, where those cash flows solely represent payments of principal and interest.

c) If a financial asset does not fall into one of the two prescribed business models, it is considered as held for trading.

Classification of financial liabilities. Financial liabilities fall in the following measurement categories: fair value and amortised cost. Financial liabilities are measured at amortised cost, unless they are required to be measured at FVPL or the Foundation has opted to measure a liability at FVPL.

Effect of the initial application of IFRS 9 at the Foundation's financial statements. The Foundation has reviewed its financial assets and liabilities and identified the following impact from the adoption of the new standard on 1 January 2018:

Assets. All financial assets of the Foundation satisfied the conditions for classification at amortised cost and there was no change to the measurement for these instruments.

Impairment. An analysis performed by the Foundation's management determined that the amount of expected credit losses as at 1 January 2018 does not materially differ from the amount of recognised allowances in the financial statements as of 31 December 2017 and, therefore, there is no significant quantitative effect of the transition as of 1 January 2018.

Liabilities. There is no impact on the Foundation's accounting and classification for financial liabilities.

3 Significant Accounting Policies (Continued)

Accounting policies applied until 31 December 2017.

Comparative information is presented with application of Foundation's previous accounting policy:

Classification of financial instruments. The Foundation classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below.

Category as defined by IAS 39		Classes as defined by the Foundation
Financial assets	Loans and receivables	Cash and cash equivalents
Financial liabilities	Financial liabilities carried at amortised cost	Accounts payable and provisions

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Foundation determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Foundation considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Foundation obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

3 Significant Accounting Policies (Continued)

Intangible assets. The Foundation's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Foundation are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include employee benefits expense of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software	5 years
License	1-5 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal.

Cash and cash equivalents. Cash and cash equivalents include cash in hand and current accounts at banks. Cash and cash equivalents are carried at amortised cost using the effective interest method.

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

Income tax. The Foundation is exempted from income tax when it acquires goods or services from individuals according to the Republic of Armenia law about Providing tax and custom privileges within the frameworks of programme.

Value added tax. The Foundation is exempted from VAT related to purchases of goods and services as well as from VAT arising from imports of goods according to the Republic of Armenia law N ՀՕ-72-Ն on providing tax and custom privileges to those organisations.

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 Foundation has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Foundation. 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 recognised in profit or loss for the year.

Employee benefits. Wages, salaries, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Foundation. The Foundation has no legal obligation in respect of pension plans with defined payments.

3 Significant Accounting Policies (Continued)

Incoming resources.

Restricted funds. Restricted income funds are received for a particular purpose of donations and are not available for general use. Where unconditional entitlement to funds receivable is dependent upon fulfilment of conditions within the Foundation's control, income is recognised when there is sufficient evidence that conditions will be met. Where there is uncertainty as to whether the Foundation can meet such conditions the income is deferred. Income is recorded within restricted funds and recognised within the Statement of Activities simultaneously with related costs incurred to perform obligations.

Unrestricted funds. Unrestricted income funds are available for the general purpose of donations as set out in Foundation's governing documents. Income is recognised within the Statement of Activities when the grant is receivable and recorded within unrestricted funds.

Endowment funds. Endowment funds are restricted funds where the assets of the fund are required to be invested and only the resulting income may be expended in support of the purposes of the Foundation. Endowment funds were invested into acquisition of property, plant and equipment and intangible assets for the use in ordinary activities of the Foundation. The fund is recognised in Statement of Activities on a systematic basis over the useful life of the asset.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

Initial recognition of related party transactions. In the normal course of business, the Foundation enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 18.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Foundation. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2018 would be to increase it by AMD 1,892 thousand or decrease it by 1,892 AMD thousand (2017: increase by AMD 39 thousand or decrease by AMD 39 thousand).

Changes in accounting estimates. As at 1 January 2018 the management of the Foundation has performed assessment of the remaining useful life of office equipment and other PPE from initially assessed 5 to 8 years. As a result of change in estimate the amount of depreciation charge for "Office equipment" and "Other" categories of PPE for the year reduced by AMD 1,922 thousand, which should have been charged if no changes in estimate were made.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 "Financial Instruments".

Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 9 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

The following amended standards became effective for the Foundation from 1 January 2018, but did not have any material impact on the Foundation:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

6 New Accounting Pronouncements

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of activities. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Foundation decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

As at 31 December 2018 the Foundation has non-cancellable lease commitments of AMD 945 thousand. Of these commitments, approximately AMD 945 thousand relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

6 New Accounting Pronouncements (Continued)

A reconciliation of the operating lease commitments disclosed in Note 14 to the recognised liability is as follows:

In thousands of Armenian Drams	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable operating leases	
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	49,311
- Effect of discounting to present value	(12,114)
Total lease liabilities	**37,197**

For the remaining lease commitments, the Foundation expects to recognise right-of-use assets of approximately AMD 37,197 thousand on 1 January 2019, lease liabilities of AMD 37,197 thousand (deferred tax assets calculation is not applicable for the Foundation as it has profit tax exemption according to the Republic of Armenia law about providing tax and custom privileges within the frameworks of programme). Overall the expected impact on the net assets and current net assets is insignificant.

The Foundation expects that net profit/ (loss) for the year-ending 31 December 2019 year will decrease by approximately AMD 624 thousand as a result of adopting the new rules.

Operating cash flows will increase, and financing cash flows decrease by approximately AMD 11,663 thousand as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognizing the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognizing the loss immediately.

7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Armenian drams	Machinery and Equipment	Vehicles	Leasehold improvement	Office equipment	CIP	Other	Total
Cost							
Balance at 20 June 2017	-	-	-	-	-	-	-
Additions	2,411	19,898	-	-	7,635	1,039	30,983
Balance at 31 December 2017	**2,411**	**19,898**	-	-	**7,635**	**1,039**	**30,983**
Additions	30,081	-	28,702	52,354	89,484	22,602	223,223
Transfers	-	-	97,119	-	(97,119)	-	-
Balance at 31 December 2018	**32,492**	**19,898**	**125,821**	**52,354**	-	**23,641**	**254,206**
Accumulated depreciation							
Balance at 20 June 2017	-	-	-	-	-	-	-
Depreciation charge	(279)	(70)	-	-	-	(36)	(385)
Balance at 31 December 2017	**(279)**	**(70)**	-	-	-	**(36)**	**(385)**
Depreciation charge	(3,416)	(1,990)	(10,292)	(2,357)	-	(861)	(18,916)
Balance at 31 December 2018	**(3,695)**	**(2,060)**	**(10,292)**	**(2,357)**	-	**(897)**	**(19,301)**
Carrying amount at 31 December 2017	**2,132**	**19,828**	-	-	**7,635**	**1,003**	**30,598**
Carrying amount at 31 December 2018	**28,797**	**17,838**	**115,529**	**49,997**	-	**22,744**	**234,905**

8 Intangible Assets

In thousands of Armenian drams	Software	Web-site development	Licences	Total
Cost				
Balance at 20 June 2017	**-**	**-**	**-**	**-**
Additions	1,448	760	-	2,208
Balance at 31 December 2017	**1,448**	**760**	**-**	**2,208**
Additions	2,839	-	1,222	4,061
Balance at 31 December 2018	**4,287**	**760**	**1,222**	**6,269**
Accumulated Amortisation				
Balance at 20 June 2017	**-**	**-**	**-**	**-**
Amortisation charge	(265)	(314)	-	(579)
Balance at 31 December 2017	**(265)**	**(314)**	**-**	**(579)**
Amortisation charge	(1,264)	(446)	(804)	(2,514)
Balance at 31 December 2018	**(1,529)**	**(760)**	**(804)**	**(3,093)**
Carrying amount at 31 December 2017	**1,183**	**446**	**-**	**1,629**
Carrying amount at 31 December 2018	**2,758**	**-**	**418**	**3,176**

9 Cash and Cash Equivalents

In thousands of Armenian drams	2018	2017
Bank balances payable on demand	31,972	65,971
Total cash and cash equivalents at 31 December	**31,972**	**65,971**

Bank balances payable on demand are held at Ameriabank CJSC. The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018 is assessed as excellent (2017: excellent) based on Standard and Poor's ratings.

10 Funds Received

In thousands of Armenian Drams		Endowment funds	Restricted funds	Unrestricted funds	Total funds
Balance as at 20 June 2017		**-**	**-**	**-**	**-**
Incoming resources generating funds					
Donations received in cash	SCF	-	55,120	215,092	270,212
Other non-cash donations received		-	560	-	560
Reclassification		33,191	-	(33,191)	-
Total incoming resources		**33,191**	**55,680**	**181,901**	**270,772**
Resources expended					
Administrative expenses	12,13	-	-	(181,901)	(181,901)
Depreciation and amortization	12	(964)	-	-	(964)
Total resources expended		**(964)**	**-**	**(181,901)**	**(182,865)**
Net incoming/(outgoing) resources		**32,227**	**55,680**	**-**	**87,907**
Balance as at 31 December 2017		**32,227**	**55,680**	**-**	**87,907**
Incoming resources generating funds					
Donations received in cash	SCF	-	-	800,879	800,879
Other non-cash donations received		-	1,421	339	1,760
Reclassification		227,284	-	(227,284)	-
Total incoming resources		**227,284**	**1,421**	**573,934**	**802,639**
Resources expended					
Administrative expenses	12	-	-	(482,249)	(482,249)
Depreciation and amortization	12	(21,430)	-	-	(21,430)
Project related expenses	13	-	(57,101)	(88,022)	(145,123)
Total resources expended		**(21,430)**	**(57,101)**	**(570,271)**	**(648,802)**
Net incoming /(outgoing) resources		**205,854**	**(55,680)**	**3,663**	**153,837**
Balance as at 31 December 2018		**238,081**	**-**	**3,663**	**241,744**

Incoming resources received from donations comprise:

In thousands of Armenian drams	**2018**	**20 June – 31 December 2017**
Individuals	366,536	96,325
Armenian companies	434,343	172,424
Foreign companies	-	1,463
Non-cash donations		
Individuals non-cash	1,421	-
Armenian companies non-cash	339	560
Total incoming resources from donations	**802,639**	**270,772**

11 Accounts Payable and Provisions

In thousands of Armenian drams	2018	2017
Trade payables	3,790	297
Total financial payables within trade payables	***3,790***	***297***
Unused vacation reserve	25,518	4,360
Other	10,996	6,995
Total accounts payable and provisions	**40,304**	**11,652**

12 Administrative Expenses

In thousands of Armenian drams	2018	20 June – 31 December 2017
Staff costs	328,741	65,348
Professional services	54,644	23,289
Business trip expenses	41,822	43,560
Depreciation and amortisation	21,430	964
Marketing expenses	6,404	4,357
Office supplies and utility costs	5,583	-
Banking expenses	2,005	-
Post and communication	1,987	-
Insurance expense	541	-
Foreign exchange losses	342	-
Other	40,180	8,045
Total administrative expenses	**503,679**	**145,563**

13 Project Related Expenses

In thousands of Armenian drams	2018	20 June – 31 December 2017
Event organisation expenses	56,254	37,302
Travelling expenses	34,590	-
Rental expenses	18,184	-
Fellowship expenses	15,003	-
Marketing expenses	12,117	-
Staff costs	3,190	-
Other	5,785	-
Total project related expenses	**145,123**	**37,302**

14 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Foundation may be received. On the basis of its own estimates' management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

Operating lease commitments. Where the Foundation is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Armenian Drams	2018	2017
Not later than 1 year	11,663	7,525
Later than 1 year and not later than 5 years	37,648	49,311
Total operating lease commitments at 31 December	**49,311**	**56,836**

15 Financial Risk Management

The risk management function within the Foundation is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Foundation takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Foundation's transactions with counterparties giving rise to financial assets.

The Foundation's maximum exposure to credit risk by class of assets is as follows:

In thousands of Armenian Drams	2018	2017
Cash and cash equivalents (Note 9)		
- Bank balances payable on demand	31,972	65,971
Total maximum exposure to credit risk	**31,972**	**65,971**

Credit risk concentration. Credit risk is the single largest risk for the Foundation's business; management therefore carefully manages its exposure to credit risk.

The Foundation's bank accounts are held with one bank (2017: one bank), thus exposing the Foundation to a concentration of credit risk.

The Foundation structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Market risk. The Foundation takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

15 Financial risk management (Continued)

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly. The table below summarises the Foundation's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2018			At 31 December 2017		
In thousands of Armenian Drams	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
US Dollars	31,360	-	**31,360**	63,958	-	**63,958**
EUR	59	-	**59**	-	-	**-**
Total	**31,419**	**-**	**31,419**	**63,958**	**-**	**63,958**

The above analysis includes only monetary assets and liabilities. Investments in non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Foundation, with all other variables held constant:

In thousands of Armenian Drams	At 31 December 2018	At 31 December 2017
US Dollar strengthening by 5% (2017: strengthening by 5%)	1,568	3,198
US Dollar weakening by 5% (2017: weakening by 5%)	(1,568)	(3,198)
EUR strengthening by 5% (2017: strengthening by 5%)	3	-
EUR weakening by 5% (2017: weakening by 5%)	(3)	-

Interest rate risk. The Foundation takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Foundation does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Foundation's business.

The table below summarises the Foundation's exposure to interest rate risks. The table presents the aggregated amounts of the Foundation's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Armenian Drams	Demand and less than 1 month	Total
31 December 2018		
Total financial assets	31,972	31,972
Net interest sensitivity gap at 31 December 2018	**31,972**	**31,972**
31 December 2017		
Total financial assets	65,971	65,971
Net interest sensitivity gap at 31 December 2017	**65,971**	**65,971**

15 Financial risk management (Continued)

Liquidity risk. Liquidity risk is the risk that the Foundation will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to daily calls on its available cash resources. Liquidity risk is managed by management of the Foundation. Management monitors monthly rolling forecasts of the Foundation's cash flows.

The Foundation seeks to maintain a stable funding base primarily consisting of trade and other payables. The Foundation's liquidity portfolio comprises cash and cash equivalents.

The tables below show liabilities at 31 December 2018 and 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

In thousands of Armenian Drams	**Demand and less than 1 month**	**Total**
Trade and other financial payables	3,790	3,790
Total future payments	**3,790**	**3,790**

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

In thousands of Armenian Drams	**Demand and less than 1 month**	**Total**
Trade and other financial payables	297	297
Total future payments	**297**	**297**

16 Fair Value of Financial Instruments

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty. Fair values of held-to-maturity investments were determined based on quoted bid prices.

Carrying amounts of non-current receivables, trade and other financial receivables and cash and cash equivalents approximate their fair values.

Liabilities carried at amortised cost. Carrying amounts of trade and other payables approximate their fair values.

17 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

17 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

In thousands of Armenian Drams	Financial assets at amortised cost	Total
Assets		
Cash and cash equivalents (Note 9)		
- Bank balances payable on demand	31,972	31,972
Total financial assets	**31,972**	**31,972**

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables represent a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

In thousands of Armenian Drams	Loans and receivables 2017	Total
Assets		
Cash and cash equivalents (Note 9)		
- Bank balances payable on demand	65,971	65,971
Total financial assets	**65,971**	**65,971**

As of 31 December 2018, all of the Foundation's financial liabilities were carried at AC.

18 Balances and Transactions with Related Parties

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.

At 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of Armenian drams	Key management personnel	Other related parties
Donations received	1,421	795,879

The income and expense items with related parties for the year ended 31 December 2018 were as follows:

In thousands of Armenian drams	Key management personnel	Other related parties
Salaries	198,373	-
Professional and other services	-	51,979
Cash and cash equivalents	-	31,972

18 Balances and Transactions with Related Parties (Continued)

At 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of Armenian drams	Key management personnel	Other related parties
Donations received	283	267,504

The income and expense items with related parties for the year ended 31 December 2017 were as follows:

In thousands of Armenian drams	Key management personnel	Other related parties
Salaries	26,668	-
Professional and other services	-	5,318
Cash and cash equivalents	-	65,971

19 Events After the Reporting Period

There were no events after the reporting period that may require adjustment of or disclosure in the Foundation's annual financial statements for the year ended 31 December 2018.