Ayb Educational Foundation

Financial Statements
for 2017

Contents

KPMG

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Independent Auditors' Report

To the Board of Trustees of Ayb Educational Foundation

Opinion

We have audited the financial statements of Ayb Educational Foundation (the "Foundation"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in fund balance and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.

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

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia cjsc

KPMG Armenia cjsc

KPMG Armenia cjsc
17 April 2018

AMD'000	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	5	299,038	193,993
Deposits in banks		274,386	123,889
Prepayments and other receivables	6	293,190	414,937
Inventory	7	60,757	342,333
Current assets		**927,371**	**1,075,152**
Property, equipment and intangible assets	8	61,013	73,655
Deferred tax assets	14	21,833	24,326
Prepayments for non-current assets		1,319	2,509
Non-current assets		**84,165**	**100,490**
Total assets		**1,011,536**	**1,175,642**
Liabilities and fund balance			
Trade and other payables	9	255,420	117,226
Grants related to assets	10	19,725	18,135
Grants related to income	11	519,338	956,376
Short term borrowings	12	149,000	-
Current liabilities		**943,483**	**1,091,737**
Grants related to assets	10	42,607	59,042
Long term borrowings		5,240	5,240
Non-current liabilities		**47,847**	**64,282**
Total liabilities		**991,330**	**1,156,019**
Accumulated surplus		20,206	19,623
Fund balance		**20,206**	**19,623**
Total liabilities and fund balance		**1,011,536**	**1,175,642**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 24.

AMD'000	Note	2017	2016
Contribution income	13	1,960,701	1,313,708
Income from services		85,262	91,362
Other income		4,372	10,004
		2,050,335	**1,415,074**
Program expenses	14	(1,971,928)	(1,322,257)
General and administrative expenses	15	(83,881)	(93,162)
Results from operating activities		**(5,474)**	**(345)**
Finance income		11,227	8,548
Finance costs		(2,677)	(482)
Net finance income		**8,550**	**8,066**
Profit before income tax		**3,076**	**7,721**
Income tax expense	16	(2,493)	(784)
Profit and total comprehensive income for the year		**583**	**6,937**

The financial statements were approved by management on 17 April 2018 and were signed on its behalf by:

Sona Koshetsyan
Executive Director

Grigor Gabrielyan
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 24.

AMD'000	**Accumulated surplus**
Balance as at 1 January 2016	12,686
Profit and total comprehensive income for the year	6,937
Balance as at 31 December 2016	**19,623**
Balance as at 1 January 2017	19,623
Profit and total comprehensive income for the year	583
Balance as at 31 December 2017	**20,206**

The statement of changes in fund balance is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 24.

AMD'000	2017	2016
Cash flows from operating activities		
Cash receipts from customers	85,086	92,301
Grants and donations received*	1,557,649	1,766,555
Grants and donations given	(575,924)	(721,646)
Cash paid to suppliers	(462,156)	(828,465)
Cash paid to employees	(363,014)	(406,533)
Payments for taxes other than on income	(135,625)	(41,782)
Cash flows from/(used in) operating activities before income taxes paid	**106,016**	**(139,570)**
Income tax paid	-	(12,200)
Net cash flow from/(used in) operating activities	**106,016**	**(151,770)**
Cash flows from investing activities		
Acquisition of property, equipment and intangible assets	(5,893)	(23,427)
Placement of deposits	(145,547)	-
Borrowings given	(4,870)	(51,000)
Proceeds from borrowings given	1,974	75,415
Interest income received	6,277	12,517
Net cash flow (used in)/ from investing activities	**(148,059)**	**13,505**
Cash flows from financing activities		
Proceeds from loans and borrowings	149,000	-
Net cash flow from financing activities	**149,000**	-
Net increase/(decrease) in cash and cash equivalents	**106,957**	**(138,265)**
Cash and cash equivalents at 1 January	193,993	344,682
Effect of exchange rate fluctuations on cash and cash equivalents	(1,912)	(12,424)
Cash and cash equivalents at 31 December (note 5)	**299,038**	**193,993**

* During the year ended 31 December 2016 a borrowing from a related party amounting to AMD 30,042 thousand was waived and converted to grant related to income.

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 24.

1 Background

(a) Armenian business environment

The Foundation's operations are located in Armenia. Consequently, the Foundation is exposed to the economic and financial markets of Armenia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. These financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Foundation. The future business environment may differ from management's assessment.

(b) Foundation and operations

Ayb Educational Foundation (the "Foundation") was established by:

- Ashot Aslanyan
- Davit Pakhchanyan
- Aram Pakhchanyan
- Karo Sargsyan
- Karen Musaelyan
- David Yan
- Matevos Aramyan
- Ogtagon LLC

The main objective of the Foundation is the creation of high quality educational environment in Armenia, support to the development and improvement of educational system of Republic of Armenia, support to youth in career development and protection of their rights.

The Foundation's registered office is 19a Koryun Street, 9th floor, Yerevan 0009, Republic of Armenia.

2 Basis of accounting

Statement of compliance

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

3 Functional and presentation currency

The national currency of the Republic of Armenia is Armenian Dram ("AMD"), which is the Foundation's functional currency and the currency in which these financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

4 Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 23 (g) – allocation of expenses.

5 Cash and cash equivalents

AMD'000	2017	2016
Bank balances	296,165	192,477
Cash in transit	2,873	1,516
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**299,038**	**193,993**

The Foundation's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 17.

6 Prepayments and other receivables

AMD'000	2017	2016
Advances and prepayments	244,933	379,395
Grants receivables	22,920	14,470
Current tax assets	15,551	15,551
Borrowings given	7,979	5,315
Other receivables	1,807	206
	293,190	**414,937**

As at 31 December 2017 the Foundation has one counterparty (2016: three counterparties), whose balance exceeded 10% of the total prepayments and other receivables. The total value of these balances as of 31 December 2017 is AMD 203,328 thousand (2016: AMD 332,689 thousand).

The Foundation's exposure to credit and currency risks related to grants and other receivables are disclosed in note 17.

7 Inventory

AMD'000	2017	2016
Construction materials	58,045	338,005
Other	2,712	4,328
	60,757	**342,333**

8 Property, equipment and intangible assets

AMD'000	Computers and equipment	Motor vehicles	Fixtures, fittings and literature	Leasehold improvement	Intangible assets	Total
Cost						
Balance at 1 January 2016	38,865	19,256	14,256	13,974	55,266	141,617
Additions	4,319	-	16,848	-	358	21,525
Disposals	-	-	(1,366)	-	-	(1,366)
Balance at 31 December 2016	**43,184**	**19,256**	**29,738**	**13,974**	**55,624**	**161,776**
Balance at 1 January 2017	43,184	19,256	29,738	13,974	55,624	161,776
Additions	2,836	-	2,037	-	2,210	7,083
Balance at 31 December 2017	**46,020**	**19,256**	**31,775**	**13,974**	**57,834**	**168,859**
Depreciation and amortization						
Balance at 1 January 2016	15,063	1,962	5,050	-	49,215	71,290
Depreciation and amortisation for the year	6,538	1,926	6,084	2,772	815	18,135
Disposals	-	-	(1,304)	-	-	(1,304)
Balance at 31 December 2016	**21,601**	**3,888**	**9,830**	**2,772**	**50,030**	**88,121**
Balance at 1 January 2017	21,601	3,888	9,830	2,772	50,030	88,121
Depreciation and amortisation for the year	7,204	1,925	6,817	2,840	939	19,725
Balance at 31 December 2017	**28,805**	**5,813**	**16,647**	**5,612**	**50,969**	**107,846**
Carrying amounts						
At 1 January 2016	23,802	17,294	9,206	13,974	6,051	70,327
At 31 December 2016	21,583	15,368	19,908	11,202	5,594	73,655
At 31 December 2017	**17,215**	**13,443**	**15,128**	**8,362**	**6,865**	**61,013**

9 Trade and other payables

AMD'000	2017	2016
Trade payables	120,549	16,152
Prepayment received	59,424	11,157
Payables to state budget	40,171	59,432
Payables to employees	35,276	30,485
Total payables	**255,420**	**117,226**

The Foundation's exposure to currency and liquidity risks related to payables are disclosed in note 17.

10 Grants related to assets

AMD'000	2017	2016
Opening balance	77,177	75,717
Received during the year	5,893	19,594
Transfer to grants related to income	(1,013)	-
Recognised in contribution income	(19,725)	(18,135)
Closing balance	**62,332**	**77,177**

11 Grants related to income

AMD'000	2017	2016
Opening balance	956,376	619,028
Received during the year	1,502,925	1,632,921
Transfer from grants related to assets	1,013	-
Recognised in contribution income	(1,940,976)	(1,295,573)
Closing balance	**519,338**	**956,376**

12 Short term borrowings

As at 31 December 2017 the Foundation had one unsecured borrowing from related party with carrying amount of AMD 149,000 thousand (2016: nil). The borrowing is non-interest bearing and is repayable on demand.

13 Contribution income

AMD'000	2017	2016
For construction work on Ayb School	801,197	458,100
For implementation of National Program for Educational Excellence – financed by government	603,384	424,835
For implementation of National Program for Educational Excellence – financed by other grants	59,821	96,118
For implementation of other projects	496,299	334,655
	1,960,701	**1,313,708**

14 Program expenses

AMD'000	2017	2016
Construction of Ayb School building	801,197	458,100
Donations given	372,925	180,353
Personnel expenses	335,794	372,682
Educational and other materials	335,387	200,993
Business trip and representation	37,470	31,532
Rent expenses	32,631	36,950
Depreciation and amortization expense	19,725	18,135
Utility and office expenses	11,628	14,220
Advertising expenses	7,789	1,836
Other	17,382	7,456
	1,971,928	**1,322,257**

15 General and administrative expenses

AMD'000	2017	2016
Educational and other materials	35,723	37,237
Personnel expenses	32,011	28,641
Business trip and representation expenses	4,512	2,601
Rent expenses	4,032	5,304
Utility and office expenses	3,724	2,156
Transportation expenses	1,075	5,795
Other expenses	2,804	11,428
	83,881	**93,162**

16 Income tax expense

(a) Amounts recognised in profit or loss

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

AMD'000	2017	2016
Current tax expense	-	-
Origination and reversal of temporary differences	(2,493)	(784)
Total income tax (expense)/benefit	**(2,493)**	**(784)**

Reconciliation of effective tax rate:

AMD'000	2017	%	2016	%
Profit/(loss) before income tax	3,076		7,721	
Tax at applicable tax rate	(615)	(20)	(1,544)	(20)
(Non-deductible expenses)/Non-taxable income	(1,878)	(61)	760	10
	(2,493)	**(81)**	**(784)**	**(10)**

(b) Deferred tax assets and liabilities

Movement in temporary differences during the year:

AMD'000	Balance 1 January 2017	Recognized in profit or loss	Balance 31 December 2017
Intangible assets	9,674	-	9,674
Trade receivables	176	(990)	(814)
Grant related to assets	8,380	(2,162)	6,218
Trade and other payables	6,096	659	6,755
	24,326	**(2,493)**	**21,833**

AMD'000	Balance 1 January 2016	Recognized in profit or loss	Balance 31 December 2016
Intangible assets	9,674	-	9,674
Trade receivables	176	-	176
Grant related to assets	8,160	220	8,380
Trade and other payables	7,100	(1,004)	6,096
	25,110	**(784)**	**24,326**

17 Fair values and risk management

(a) Fair values of financial instruments

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

(b) Financial risk management

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

- credit risk (see note 17 (c));
- liquidity risk (see note 17 (d));
- market risk (see note 17 (e)).

Management has overall responsibility for the establishment and oversight of the Foundation's risk management framework.

The Foundation's risk management policies are established to identify and analyze the risks faced by the Foundation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Foundation's activities.

The Foundation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(c) Credit risk

Credit risk is the risk of financial loss to the Foundation if a counterparty of a financial instrument fails to meet its contractual obligations. Financial assets, which are potentially subject to concentrations of credit risk, consist principally of bank balances. Although collection of bank balances could be influenced by economic factors, management believes that no counterparty will fail to meet its obligations and that the Foundation is, accordingly, not significantly exposed to credit risk. Bank balances are maintained with reputable Armenian banks, and the Foundation does not expect any counterparty to fail to meet its obligations.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

AMD'000	2017	2016
ASSETS		
Cash and cash equivalents	299,038	193,993
Deposits in banks	274,386	123,889
Grant receivables	22,920	14,470
Borrowings given	7,979	5,315
Total maximum exposure	**604,323**	**337,667**

(d) Liquidity risk

Liquidity risk is the risk that the Foundation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Foundation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Foundation's reputation. The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted.

31 December 2017		Contractual cash flows					
AMD'000	**Carrying amount**	**Total**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivative financial liabilities							
Trade and other payables	120,549	120,549	120,549	-	-	-	-
Borrowings received	154,240	154,240	149,000	-	5,240	-	-
	274,789	**274,789**	**269,549**	-	**5,240**	-	-

31 December 2016		Contractual cash flows					
AMD'000	**Carrying amount**	**Total**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivative financial liabilities							
Trade and other payables	16,152	16,152	16,152	-	-	-	-
Borrowings received	5,240	5,240	-	-	5,240	-	-
	21,392	**21,392**	**16,152**	-	**5,240**	-	-

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

(e) Market risk

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

Currency risk

The Foundation is exposed to currency risk to the extent that there is a mismatch between currencies in which deposits, grant and other receivables and borrowings are denominated and the functional currency of the Foundation. The currency in which these transactions are primarily denominated is USD.

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

AMD'000	USD-denominated 2017	GBP-denominated 2017	USD-denominated 2016	GBP-denominated 2016
Deposits in banks	129,436	-	123,889	-
Cash and cash equivalents	162,518	656	86,241	48
Prepayments and other receivables	38,381	210,369	19,067	227,014
Borrowings received	(3,513)	-	(3,513)	-
Trade and other payables	(66)	(113)	-	(103)
	326,756	**210,912**	**225,684**	**226,959**

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

	Average rate		Reporting date spot rate	
	2017	**2016**	**2017**	**2016**
1 USD equals AMD	482.63	480.48	484.1	483.94
1 GBP equals AMD	622.27	649.96	653.54	595.54

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AMD, as indicated below, against USD at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 AMD	Strengthening Profit or loss	Weakening Profit or loss
31 December 2017		
USD (10% movement)	(32,676)	32,676
GBP (10% movement)	(21,091)	21,091
31 December 2016		
USD (10% movement)	(22,568)	22,568
GBP (10% movement)	(22,696)	22,696

18 Capital commitments

The Foundation is committed to incur capital expenditure of AMD 200,139 thousand (2016: AMD 323,616 thousand) related to construction contracts.

19 Capital management

Given the nature of the Foundation's operations, the Foundation does not have a formal capital management policy. The Foundation is not subject to externally imposed capital requirements.

20 Contingencies

Taxation contingencies

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

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

21 Related party transactions

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel expenses:

AMD'000	**2017**	**2016**
Salaries and bonuses	**84,048**	**113,655**

(ii) Other transactions with key management

AMD'000	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2017	**2016**	**2017**	**2016**
Grants related to income	79,953	715	-	-

(iii) Transactions with Board of Trustees and founders

AMD'000	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2017	**2016**	**2017**	**2016**
Grants related to income	139,250	185,893	285,375	496,199
Borrowing received converted to grant	-	30,042	-	2,614

(iv) Transactions with other related parties

AMD'000	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2017	**2016**	**2017**	**2016**
Grants related to income (received)	1,115	728	-	728
Grant given	(1,062,058)	(565,528)	-	-
Borrowings received	149,000	-	149,000	-
Acquisition of goods and services	(35,583)	(42,732)	-	-

All outstanding balances with related parties are to be settled in cash within one year of the reporting date. None of the balances are secured. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

Other related parties represent entities under common control with the Foundation and other foundations founded by the Foundation.

22 Basis of measurement

The financial statements have been prepared on the historical cost basis.

23 Significant accounting policies

The accounting policies applied by the Foundation in these financial statements are the same as those applied by the Foundation in its financial statements as at and for the year ended 31 December 2016.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AMD at the exchange rate at that date. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(b) Financial instruments

Non-derivative financial assets

The Foundation initially recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Foundation becomes a party to the contractual provisions of the instrument.

The Foundation derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Foundation is recognised as a separate asset or liability.

The Foundation derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The Foundation classifies non-derivative financial assets into the loans and receivables category. Loans and receivables are a category of financial asset with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see note 3(e)(i)).

Loans and receivables category comprise the following classes of financial assets: receivables, cash and cash equivalents as presented in note 4 and borrowings given.

Cash and cash equivalents comprise cash balances and current bank accounts.

Non-derivative financial liabilities

The Foundation classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities comprise payables.

(c) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

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

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Foundation and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

• computers and equipment	5-10 years
• vehicles	5-10 years
• fixtures and fittings	3-5 years
• leasehold improvement	1-10 years
• intangible assets	5 years
• other assets	1-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(d) Inventories

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

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

(e) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Foundation on terms that the Foundation would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers or economic conditions that correlate with defaults.

The Foundation considers evidence of impairment for receivables at both an individual asset and collective level. All individually significant receivables are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Foundation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount net of related deferred revenue, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Foundation considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Foundation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Grants and contribution income

Grants related to income and grants related to assets are recognised initially at fair value when there is reasonable assurance that they will be received and that the Foundation will comply with the conditions associated with the grant. Grants related to assets are recognised in profit or loss on a systematic basis over the useful life of the asset. Grants related to income that compensate the Foundation for expenses incurred are recognised in profit or loss as contribution income on a systematic basis in the same periods in which the expenses are recognized.

(g) Expenses

Program expenses relating to provision of grants are recognised when a grant letter is signed between the Foundation and the grantee. If grants are provided with conditions, the grant expense is recorded when the grantee meets the condition or when the likelihood that the recipient will not meet the conditions becomes remote.

Other program expenses and non-grant expenses are recognised on an accrual basis, when goods are received or when services are performed.

Allocation of expenses related to program and administrative expenses is performed based on the underlying nature of the expense as well as management's best estimate of the time spent and related expenses incurred on program related/non-program related activities.

The management estimates the time spent and the related expenses incurred on program related and non-program related activities in average proportions of 91% and 9% (2016: 91% and 9%) in relation to administrative expenses.

(h) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Foundation determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Foundation separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Foundation concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Foundation's incremental borrowing rate.

(ii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

24 New standards and interpretations not yet adopted

A number of new standards, amendments to standards, and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Foundation's operations. The Foundation plans to adopt these pronouncements when they become effective.

(a) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

(i) Rendering of services

The Foundation is involved in organizing educational contests and as one of the contests is not over at the end of the reporting period, currently the revenue from that contest is being recognized over the stage of completion.

Under IFRS 15, for each performance obligation that is satisfied over time, and entity should apply a single method of measuring progress toward complete satisfaction of the obligation.

Based on the Foundation's assessment, the revenue recognition under IFRS 15 will not differ from current method of revenue recognition. Therefore, the Foundation does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these services.

(ii) Transition

The Foundation plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Foundation will not apply the requirements of IFRS 15 to the comparative period presented.

(b) Other standards

The Foundation has assessed that the following new standards effective for annual period beginning on 1 January 2018 will not have a material impact on the Foundation's financial statements.

- *IFRS 16 Leases*
- *IFRS 9 Financial Instruments*