

**Ayb Educational Foundation**

**Financial Statements  
for 2018**

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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 2018, 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 2018, 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.

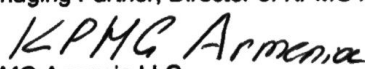
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

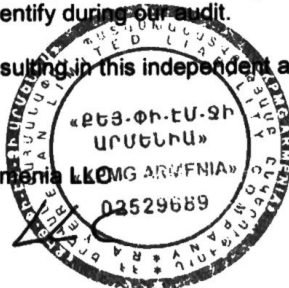
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 LLC

  
KPMG Armenia LLC  
7 June 2019



*Ayb Educational Foundation*  
Statement of Financial Position as of 31 December 2018

AMD'000	Note	31 December 2018	31 December 2017 *
<b>Assets</b>			
Cash and cash equivalents	6	316,523	299,038
Deposits in banks		-	274,386
Prepayments and other receivables	7	47,749	293,190
Inventory	8	21,386	60,757
<b>Current assets</b>		<b>385,658</b>	<b>927,371</b>
Property, equipment and intangible assets	9	44,279	61,013
Deferred tax assets	17	16,411	21,833
Prepayments for non-current assets		1,177	1,319
<b>Non-current assets</b>		<b>61,867</b>	<b>84,165</b>
<b>Total assets</b>		<b>447,525</b>	<b>1,011,536</b>
<b>Liabilities and fund balance</b>			
Trade and other payables	10	80,332	255,420
Grants related to assets	11	18,430	19,725
Grants related to income	12	152,758	519,338
Short term borrowings	13	142,000	149,000
<b>Current liabilities</b>		<b>393,520</b>	<b>943,483</b>
Grants related to assets	11	25,587	42,607
Long term borrowings		5,240	5,240
<b>Non-current liabilities</b>		<b>30,827</b>	<b>47,847</b>
<b>Total liabilities</b>		<b>424,347</b>	<b>991,330</b>
Accumulated surplus		23,178	20,206
<b>Fund balance</b>		<b>23,178</b>	<b>20,206</b>
<b>Total liabilities and fund balance</b>		<b>447,525</b>	<b>1,011,536</b>

\* The Foundation has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated, see Note 5.

*Ayb Educational Foundation*  
*Statement of Profit or Loss and Other Comprehensive Income for 2018*

AMD'000	Note	2018	2017 *
Contribution income	14	1,289,578	1,960,701
Income from services		91,473	85,262
Other income		11,386	4,372
		<b>1,392,437</b>	<b>2,050,335</b>
Program expenses	15	(1,289,891)	(1,971,928)
General and administrative expenses	16	(101,408)	(83,881)
<b>Results from operating activities</b>		<b>1,138</b>	<b>(5,474)</b>
Finance income		17,998	11,227
Finance costs		(10,742)	(2,677)
<b>Net finance income</b>		<b>7,256</b>	<b>8,550</b>
<b>Profit before income tax</b>		<b>8,394</b>	<b>3,076</b>
Income tax expense	17	(5,422)	(2,493)
<b>Profit and total comprehensive income for the year</b>		<b>2,972</b>	<b>583</b>

\* The Foundation has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated, see Note 5.

The financial statements were approved by management on 06 June 2019 and were signed on its behalf by:

Sona Koshetsyan  
 Executive Director



Arman Mazaryan  
 Acting 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 32.

**Ayb Educational Foundation**  
**Statement of Changes in Fund Balance for 2018**

<b>AMD'000</b>	<b>Accumulated surplus</b>
Balance as at 1 January 2017	19,623
Profit and total comprehensive income for the year	583
<b>Balance as at 31 December 2017</b>	<b>20,206</b>
Balance as at 1 January 2018 *	20,206
Profit and total comprehensive income for the year	2,972
<b>Balance as at 31 December 2018</b>	<b>23,178</b>

\* The Foundation has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated, see Note 5.

*Ayb Educational Foundation*  
*Statement of Cash Flows for 2018*

<b>AMD'000</b>	<b>2018</b>	<b>2017 *</b>
<b>Cash flows from operating activities</b>		
Cash receipts from customers	91,473	85,086
Grants and donations received	904,568	1,557,649
Grants and donations given	(28,000)	(575,924)
Cash paid to suppliers	(655,059)	(462,156)
Cash paid to employees	(429,219)	(363,014)
Payments for taxes other than on income	(152,690)	(135,625)
<b>Cash flows used in/(from) operating activities before income taxes paid</b>	<b>(268,927)</b>	<b>106,016</b>
Income tax paid	-	-
<b>Net cash flow used in/(from) operating activities</b>	<b>(268,927)</b>	<b>106,016</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, equipment and intangible assets	(1,497)	(5,893)
Placement of bank deposits	-	(145,547)
Proceeds from bank deposits	269,545	-
Borrowings given	-	(4,870)
Proceeds from borrowings given	3,382	1,974
Interest income received	22,949	6,277
<b>Net cash flow used in/(from) investing activities</b>	<b>294,379</b>	<b>(148,059)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	149,000
Repayment of borrowings	(7,000)	-
<b>Net cash flow used in/(from) financing activities</b>	<b>(7,000)</b>	<b>149,000</b>
<b>Net increase in cash and cash equivalents</b>	<b>18,452</b>	<b>106,957</b>
Cash and cash equivalents at 1 January	299,038	193,993
Effect of exchange rate fluctuations on cash and cash equivalents	(967)	(1,912)
<b>Cash and cash equivalents at 31 December (Note 6)</b>	<b>316,523</b>	<b>299,038</b>

\* The Foundation has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated, see Note 5.

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 32.



## **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").

This is the first set of the Foundation's annual financial statements in which IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 5.

## **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 24 (f) – allocation of expenses.

## **5 Changes in significant accounting policies**

The Foundation has initially applied IFRS 9 (see (A)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Foundation's financial statements.

Due to the transition methods chosen by the Foundation in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

### **A. IFRS 9 *Financial Instruments***

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Foundation has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI.

Additionally, the Foundation has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

No impact has been recognized on retained earnings at 1 January 2018 as a result of transition to IFRS 9.

#### **(i) *Classification and measurement of financial assets***

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Foundation's accounting policies related to financial liabilities.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Foundation's financial assets and financial liabilities as at 1 January 2018.

'000 AMD	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	Remeasurement	New carrying amount under IFRS 9
<b>Financial assets</b>						
Cash and cash equivalents	Loans and receivables	Amortised cost	299,038	-	-	299,038
Grants receivables	Loans and receivables	Amortised cost	22,920	-	-	22,920
Borrowings given	Loans and receivables	Amortized cost	7,979	-	-	7,979
<b>Total financial assets</b>			<b>329,937</b>	<b>-</b>	<b>-</b>	<b>329,937</b>

Grants and other receivables, borrowings given and cash and cash equivalents that were classified as loans and receivables under IAS39 are now classified at amortised costs. The allowance for impairment over these receivables were considered immaterial. The Foundation intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

As a result of the adoption of IFRS 9 there were no reclassification or remeasurement of financial liabilities.

**(ii) Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Foundation has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not result in an additional allowance for impairment.

**(iii) Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Foundation has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.
- The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application: determination of the business model within which a financial asset is held.

## 6 Cash and cash equivalents

AMD'000	2018	2017
Bank balances	316,523	296,165
Cash in transit	-	2,873
<b>Cash and cash equivalents in the statement of financial position and in the statement of cash flows</b>	<b>316,523</b>	<b>299,038</b>

The Foundation's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 18.

## 7 Prepayments and other receivables

AMD'000	2018	2017
Grants receivables	4,839	22,920
Borrowings given	4,597	7,979
<b>Receivables included in amortized cost category</b>	<b>9,436</b>	<b>30,899</b>
Advances and prepayments	18,338	244,933
Current tax assets	15,551	15,551
Other	4,424	1,807
	<b>47,749</b>	<b>293,190</b>

As at 31 December 2018 the Foundation has two counterparties (2017: one counterparty), whose balance exceeded 10% of the total prepayments and other receivables. The total value of these balances as of 31 December 2018 is AMD 11,939 thousand (2017: AMD 203,328 thousand).

The Foundation's exposure to credit and currency risks related to grants receivable and borrowings given are disclosed in Note 18.

## 8 Inventory

AMD'000	2017	2017
Construction materials	18,635	58,045
Other	2,751	2,712
	<b>21,386</b>	<b>60,757</b>

## 9 Property, equipment and intangible assets

AMD'000	Computers and equipment	Motor vehicles	Fixtures, fittings and literature	Leasehold improvement	Intangible assets	Total
<i>Cost</i>						
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
<b>Balance at 31 December 2017</b>	<b>46,020</b>	<b>19,256</b>	<b>31,775</b>	<b>13,974</b>	<b>57,834</b>	<b>168,859</b>
Balance at 1 January 2018	46,020	19,256	31,775	13,974	57,834	168,859
Additions	974	-	172	-	550	1,696
<b>Balance at 31 December 2018</b>	<b>46,994</b>	<b>19,256</b>	<b>31,947</b>	<b>13,974</b>	<b>58,384</b>	<b>170,555</b>
<i>Depreciation and amortization</i>						
Balance at 1 January 2017	21,601	3,888	9,830	2,772	50,030	88,121
Depreciation and amortization for the year	7,204	1,925	6,817	2,840	939	19,725
<b>Balance at 31 December 2017</b>	<b>28,805</b>	<b>5,813</b>	<b>16,647</b>	<b>5,612</b>	<b>50,969</b>	<b>107,846</b>
Balance at 1 January 2018	28,805	5,813	16,647	5,612	50,969	107,846
Depreciation and amortization for the year	6,639	1,925	5,939	2,782	1,145	18,430
<b>Balance at 31 December 2018</b>	<b>35,444</b>	<b>7,738</b>	<b>22,586</b>	<b>8,394</b>	<b>52,114</b>	<b>126,276</b>
<i>Carrying amounts</i>						
At 1 January 2017	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
<b>At 31 December 2018</b>	<b>11,550</b>	<b>11,518</b>	<b>9,361</b>	<b>5,580</b>	<b>6,270</b>	<b>44,279</b>

## 10 Trade and other payables

AMD'000	2018	2017
Trade payables	57,596	120,549
Payables to employees	11,960	35,276
Prepayment received	10,737	59,424
Payables to state budget	39	40,171
<b>Total payables</b>	<b>80,332</b>	<b>255,420</b>

The Foundation's exposure to currency and liquidity risks related to payables are disclosed in Note 18.

## 11 Grants related to assets

AMD'000	2018	2017
Opening balance	62,332	77,177
Received during the year	115	5,893
Transfer to grants related to income	-	(1,013)
Recognized in contribution income	(18,430)	(19,725)
<b>Closing balance</b>	<b>44,017</b>	<b>62,332</b>

## 12 Grants related to income

AMD'000	2018	2017
Opening balance	519,338	956,376
Received during the year	904,568	1,502,925
Transfer from grants related to assets	-	1,013
Recognised in contribution income	(1,271,148)	(1,940,976)
<b>Closing balance</b>	<b>152,758</b>	<b>519,338</b>

## 13 Short term borrowings

As at 31 December 2018 the Foundation had one unsecured borrowing from related party with carrying amount of AMD 142,000 thousand (2017: AMD 149,000 thousand). The borrowing is non-interest bearing and is repayable on demand.

## 14 Contribution income

AMD'000	2018	2017
For construction works on Ayb School	223,863	801,197
For implementation of National Program for Educational Excellence – financed by government	626,085	603,384
For implementation of National Program for Educational Excellence – financed by other grants	-	59,821
For implementation of other projects	439,630	496,299
	<b>1,289,578</b>	<b>1,960,701</b>

## 15 Program expenses

AMD'000	2018	2017
Personnel expenses	372,833	335,794
Educational and other materials	315,857	335,387
Donations given	274,695	372,925
Construction of Ayb School building	223,863	801,197
Rent expenses	23,148	32,631
Business trip and representation	22,392	37,470
Depreciation and amortization expense	18,430	19,725
Advertising expenses	10,967	7,789
Utility and office expenses	5,977	11,628
Other	21,729	17,382
	<b>1,289,891</b>	<b>1,971,928</b>

## 16 General and administrative expenses

AMD'000	2018	2017
Educational and other materials	38,995 ✓	35,723 ✓
Personnel expenses	33,070 ✓	32,011 ✓
Business trip and representation expenses	9,592	4,512
Rent expenses	9,916 ✓	4,032 ✓
Advertising expenses	4,698	-
Utility and office expenses	2,560 ✓	3,724 ✓
Transportation expenses	1,785	1,075
Other expenses	792	2,804
	<b>101,408</b>	<b>83,881</b>

## 17 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	2018	2017
Current tax expense	-	-
Origination and reversal of temporary differences	(5,422)	(2,493)
<b>Total income tax expense</b>	<b>(5,422)</b>	<b>(2,493)</b>

### Reconciliation of effective tax rate:

AMD'000	2018	%	2017	%
Profit before income tax	8,394		3,076	
Tax at applicable tax rate	(1,679)	(20)	(615)	(20)
Non-deductible expenses	(3,743)	(45)	(1,878)	(61)
	<b>(5,422)</b>	<b>(65)</b>	<b>(2,493)</b>	<b>(81)</b>

### (b) Deferred tax assets and liabilities

Movement in temporary differences during the year:

AMD'000	Balance 1 January 2018	Recognized in profit or loss	Balance 31 December 2018
Intangible assets	9,674	-	9,674
Trade receivables	(814)	974	160
Grant related to assets	6,218	(2,012)	4,206
Trade and other payables	6,755	(4,384)	2,371
	<b>21,833</b>	<b>(5,422)</b>	<b>16,411</b>

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
	<b>24,326</b>	<b>(2,493)</b>	<b>21,833</b>



## 18 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 18 (c));
- liquidity risk (see Note 18 (d));
- market risk (see Note 18 (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.

For portfolios in respect of which the Foundation has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL which also represents the maximum exposure to credit risk from financial assets at the reporting date is as follows:

AMD'000	2018	2017	External benchmarks used	
			PD	LGD
<b>ASSETS</b>				
Cash and cash equivalents	316,523	299,038	S&P default study	-
Deposits in banks	-	274,386	S&P default study	-
Grants receivable	4,839	22,920	S&P default study	Moody's recovery studies
Borrowings given	4,597	7,979	S&P default study	Moody's recovery studies
<b>Total maximum exposure</b>	<b>325,959</b>	<b>604,323</b>		

**Cash and cash equivalents**

The Foundation holds bank balances of AMD 316,523 thousand at 31 December 2018 (31 December 2017: AMD 299,038 thousand), which represents its maximum credit exposure on these assets. Although collection of bank balances could be influenced by economic factors, management believes that no counterparty will fail to meet its obligations as the Foundation holds cash and cash equivalents among top ten Armenian banks by total assets.

Per Foundation’s assessment no impairment loss is recognised on bank balances primarily due to their short maturities.

**Grants receivable**

Grants receivable is attributable to a transaction with a single customer. The balance is not impaired or overdue. Per Foundation’s assessment, no impairment loss is recognised on grants receivable primarily due to their short maturities.

**Borrowings given**

The Foundation uses a similar approach for assessment of ECLs for borrowings given to those used for grants receivables. The Foundation’s policy is to provide borrowings to related parties.

With respect to the borrowings given to related parties the Foundation does not expect material losses as the balances are on demand.

**(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 2018	Carrying amount	Contractual cash flows					
		Total	Less than 2 months	2-12 months	1-2 years	2-5 years	Over 5 years
<b>AMD’000</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	57,596	57,596	57,596	-	-	-	-
Borrowings received	147,240	147,240	142,000	-	5,240	-	-
	<b>204,836</b>	<b>204,836</b>	<b>199,529</b>	-	<b>5,240</b>	-	-

31 December 2017

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

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 optimizing 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 2018	GBP-denominated 2018	USD-denominated 2017	GBP-denominated 2017
Deposits in banks	-	-	129,436	-
Cash and cash equivalents	303,421	178	162,518	656
Prepayments and other receivables	12,264	-	38,381	210,369
Borrowings received	(3,513)	-	(3,513)	-
Trade and other payables	(23)	(113)	(66)	(113)
	<b>312,149</b>	<b>65</b>	<b>326,756</b>	<b>210,912</b>

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

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
1 USD equals AMD	483.03	482.63	483.75	484.1
1 GBP equals AMD	644.94	622.27	611.61	653.54

### **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.

<b>'000 AMD</b>	<b>Strengthening</b>	<b>Weakening</b>
	<b>Profit or loss</b>	<b>Profit or loss</b>
<b>31 December 2018</b>		
USD (10% movement)	(31,215)	31,215
GBP (10% movement)	(7)	7
<b>31 December 2017</b>		
USD (10% movement)	(32,676)	32,676
GBP (10% movement)	(21,091)	21,091

## **19 Capital commitments**

The Foundation is committed to incur capital expenditure of AMD 46,060 thousand (2017: AMD 200,139 thousand) related to construction contracts.

## **20 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.

## **21 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.

## 22 Related party transactions

### (i) Management remuneration

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

AMD'000	2018	2017
Salaries and bonuses	98,516	84,048

### (ii) Other transactions with key management

AMD'000	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2018	2017	2018	2017
Grants related to income	113	79,953	-	-

### (iii) Transactions with Board of Trustees and founders

AMD'000	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2018	2017	2018	2017
Grants related to income	63,607	139,250	285,375	285,375

### (iv) Transactions with other related parties

AMD'000	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2018	2017	2018	2017
Grants related to income (received)	2,785	1,115	-	-
Grant given	(435,622)	(1,062,058)	-	-
Borrowings received	-	149,000	142,000	149,000
Acquisition of goods and services	(31,984)	(35,583)	2,200	-

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.

## **23 Basis of measurement**

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

## **24 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Foundation.

### **(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**

#### **(i) Recognition and initial measurement**

The Foundation initially recognises loans and 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.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A contribution receivable without a significant financing component is initially measured at the transaction price.

#### **(ii) Classification and subsequent measurement**

##### **Financial assets – Policy applicable from 1 January 2018**

On initial recognition, a financial asset is classified as measured at amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Foundation changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Foundation may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**Financial assets – Business model assessment: Policy applicable from 1 January 2018**

The Foundation makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Foundation's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

**Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Foundation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Foundation considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Foundation's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par

amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

#### **Financial assets – Policy applicable before 1 January 2018**

The Foundation classified its financial assets into loans and receivables category.

#### **Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018**

Loans and receivables were measured at amortised cost using the effective interest method.

#### **Financial liabilities – Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

#### **(iii) *Modification of financial assets and financial liabilities***

##### **Financial assets**

If the terms of a financial asset are modified, the Foundation evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Foundation performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Foundation assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Foundation analogizes to the guidance on the derecognition of financial liabilities.

The Foundation concludes that the modification is substantial as a result of the following qualitative factors:

- change in the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).



If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Foundation recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

### **Financial liabilities**

The Foundation derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Foundation applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Foundation recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms.

Foundation performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Foundation concludes that the modification is substantial as a result of the following qualitative factors:

- change in the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

#### **(iv) Derecognition**

### **Financial assets**

The Foundation derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in

which the Foundation neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Foundation enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

### **Financial liabilities**

The Foundation derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Foundation also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

#### **(v) Offsetting**

Financial assets and financial 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 amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### **(c) Impairment**

##### **Non-derivative financial assets**

##### **Policy applicable from 1 January 2018**

##### *Financial instruments and contract assets*

The Foundation recognises loss allowances for ECLs on financial assets measured at amortised cost.

Loss allowances for contribution receivable are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Foundation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Foundation's historical experience and informed credit assessment and including forward-looking information.

The Foundation assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Foundation considers a financial asset to be in default when:

- the counterparty is unlikely to pay its credit obligations to the Foundation in full, without recourse by the Foundation to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Foundation is exposed to credit risk.

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Foundation expects to receive).

#### *Credit-impaired financial assets*

At each reporting date, the Foundation assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of an amount due to the Foundation on terms that the Foundation would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

#### **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

#### *Write-off*

The gross carrying amount of a financial asset is written off when the Foundation has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Foundation individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Foundation expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Foundation's procedures for recovery of amounts due.

**Policy applicable before 1 January 2018**

*Non-derivative financial assets*

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- 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 or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

<b>Financial assets measured at amortised cost</b>	<p>The Foundation considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.</p>
	<p>In assessing collective impairment, the Foundation used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.</p>
	<p>An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Foundation considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.</p>

*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 recognized 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 recognized in profit or loss. Impairment losses recognized 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 amortization, if no impairment loss had been recognized.

**(d) 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 recognized 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 recognized 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 derecognized. The costs of the day-to-day servicing of property and equipment are recognized 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 recognized 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.

**(e) Inventories**

Inventories are measured at the lower of cost and net realizable 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 realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(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 92% and 8% (2017: 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.

## **25 New standards and interpretations not yet adopted**

Two new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Foundation has not early adopted the new or amended standards in preparing these financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Foundation's financial statements in the period of initial application.

**(a) IFRS 16 Leases**

The Foundation is required to adopt IFRS 16 *Leases* from 1 January 2019. The Foundation has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Foundation presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

**(i) Leases in which the Foundation is a lessee**

The Foundation will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Foundation will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Foundation recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the Foundation estimates that it will recognise additional lease liabilities as at 1 January 2019 for the rent of administrative office.

**(ii) Transition**

The Foundation plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Foundation plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

**(b) Other standards and interpretations**

The following amended standards and interpretations are not expected to have a significant impact on the Foundation's financial statements.

- *IFRIC 23 Uncertainty over Tax Treatments;*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9);*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards;*
- *IFRS 17 Insurance Contracts.*