ASCE Group OJSC

Preliminary IFRS Financial Statements for 2019

Contents

Independent Auditors’ Report	3
Preliminary IFRS Statement of Financial Position	6
Preliminary IFRS Statement of Profit or Loss and Other Comprehensive Income	7
Preliminary IFRS Statement of Changes in Equity	8
Preliminary IFRS Statement of Cash Flows	9
Notes to the Preliminary IFRS Financial Statements	10

KPMG Armenia LLC
8th floor, Erebuni Plaza Business Center
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia
Telephone + 374 (10) 595 999
Internet www.kpmg.am

Independent Auditors' Report

To the Board of Directors of ASCE Group OJSC

Qualified Opinion

We have audited the financial statements of ASCE Group OJSC ("the Company"), which comprise the statements of financial position as at 31 December 2019 and 1 January 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2019, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and 1 January 2019, and its financial performance and its cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

We did not observe the counting of inventories stated at AMD 4,319,780 thousand and AMD 3,557,266 thousand as at 31 December 2019 and 1 January 2019, respectively, because we were appointed as auditors of the Company only after those dates. We were unable to satisfy ourselves as to those inventory quantities by alternative means. As a result, we were unable to determine whether adjustments might have been necessary in respect of inventories and the related elements making up the statements of financial position as at 31 December 2019 and 1 January 2019, and the related elements making up the statements of profit or loss and other comprehensive income, changes in equity and cash flows as at and for the year ended 31 December 2019.

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 Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in 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 qualified opinion.

Emphasis of Matter

We draw attention to Note 2(a), which explains that these financial statements have been prepared as part of the Company's adoption of International Financial Reporting Standards, that these financial statements may require adjustment before constituting the corresponding figures in the first complete set of financial statements prepared in accordance with International Financial Reporting Standards as at and for the year ending 31 December 2020 and that these financial statements, except for the statement of financial position as at 1 January 2019, do not themselves include corresponding figures for the prior year. Our opinion is not modified in respect of this matter.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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 scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Irina Gevorgyan	Tigran Gasparyan
Engagement Partner	Director of KPMG Armenia LLC

KPMG Armenia LL

KPMG Armenia LLC
18 December 2020

Preliminary IFRS Statement of Financial Position as at 31 December 2019

’000 AMD	Note	31 December 2019	1 January 2019
Assets			
Property, plant and equipment	11	29,153,842	29,897,209
Non-current assets		**29,153,842**	**29,897,209**
Inventories	12	4,319,780	3,557,266
Trade and other receivables	13	976,092	824,273
Cash and cash equivalents	14	154,692	130,656
Current assets		**5,450,564**	**4,512,195**
Total assets		**34,604,406**	**34,409,404**
Equity			
Share capital		1,179,822	1,179,822
Retained earnings		7,084,101	5,313,043
Total equity	15	**8,263,923**	**6,492,865**
Liabilities			
Loans and borrowings	17	-	8,410,242
Trade and other payables	18	-	128,893
Deferred tax liability	10	2,737,918	2,756,622
Non-current liabilities		**2,737,918**	**11,295,757**
Loans and borrowings	17	19,992,330	13,129,411
Trade and other payables	18	3,472,987	3,486,866
Current tax liability		137,248	4,505
Current liabilities		**23,602,565**	**16,620,782**
Total liabilities		**26,340,483**	**27,916,539**
Total equity and liabilities		**34,604,406**	**34,409,404**

The preliminary IFRS statement of financial position is to be read in conjunction with the notes to, and forming part of, the preliminary IFRS financial statements set out on pages 10 to 43.

Preliminary IFRS Statement of Profit or Loss and Other Comprehensive Income for 2019

'000 AMD	Note	2019
Revenue	5	9,766,017
Cost of sales	6	(6,697,002)
Gross profit		**3,069,015**
Other income		8,990
Distribution expenses		(26,736)
General and administrative expenses	7	(222,710)
Other expenses	8	(313,276)
Results from operating activities		**2,515,283**
Finance income	9	189,277
Finance costs	9	(809,420)
Net finance costs		**(620,143)**
Profit before income tax		**1,895,140**
Income tax expense	10	(124,082)
Profit and total comprehensive income for the year		**1,771,058**

These preliminary IFRS financial statements were approved by management on 18 December 2020 and were signed on its behalf by:

Khachatur Antonyan
General Director

Karine Mamikonyan
Chief Accountant

The preliminary IFRS statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the preliminary IFRS financial statements set out on pages 10 to 43.

Preliminary IFRS Statement of Changes in Equity for 2019

’000 AMD	**Share capital**	**Retained earnings**	**Total**
Balance at 1 January 2019	1,179,822	5,313,043	6,492,865
Total comprehensive income			
Profit for the year	-	1,771,058	1,771,058
Total comprehensive income for the year	**-**	**1,771,058**	**1,771,058**
Balance at 31 December 2019	**1,179,822**	**7,084,101**	**8,263,923**

The preliminary IFRS statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the preliminary IFRS financial statements set out on pages 10 to 43.

Preliminary IFRS Statement of Cash Flows for 2019

’000 AMD	**Note**	**2019**
Cash flows from operating activities		
Profit for the year		1,771,058
Adjustments for:		
Depreciation	11	1,317,417
Reversal of impairment allowance on trade receivables	8	(1,724)
Net finance costs	9	620,143
Income tax expense	10	124,082
Changes in:		
Inventories		(730,871)
Trade and other receivables*		(860,136)
Trade and other payables		(152,610)
Cash flows from operations before income taxes and interest paid		**2,087,359**
Income tax paid		(10,043)
Interest paid		(395,421)
Net cash from operating activities		**1,681,895**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment		5,636
Interest received		252
Acquisition of property, plant and equipment		(610,682)
Net cash used in investing activities		**(604,794)**
Cash flows from financing activities		
Proceeds from loans and borrowings		763,592
Repayment of loans and borrowings		(1,816,330)
Net cash used in financing activities		**(1,052,738)**
Net increase in cash and cash equivalents		**24,363**
Cash and cash equivalents at 1 January		130,656
Effect of movements in exchange rates on cash and cash equivalents		(327)
Cash and cash equivalents at 31 December	14	**154,692**

***** Receivables of AMD 712,063 thousand were offset with borrowings from shareholders (Note 17(c)).

The preliminary IFRS statement of cash flows is to be read in conjunction with the notes to, and forming part of, the preliminary IFRS financial statements set out on pages 10 to 43.

Notes to the Preliminary IFRS Financial Statements for 2019

Note	Page
1. Reporting entity	11
2. Basis of accounting	11
3. Functional and presentation currency	12
4. Use of estimates and judgements	12
5. Revenue	13
6. Cost of sales	15
7. Administrative expenses	16
8. Other expenses	16
9. Net finance costs	16
10. Income taxes	17
11. Property, plant and equipment	18
12. Inventories	20
13. Trade and other receivables	20
14. Cash and cash equivalents	21
15. Capital and reserves	21
16. Capital management	21
17. Loans and borrowings	22
18. Trade and other payables	24
19. Fair values and risk management	24
20. Leases	31
21. Contingencies	31
22. Related parties	32
23. Subsequent events	33
24. Basis of measurement	34
25. Significant accounting policies	34
26. New standards and interpretations not yet adopted	43

1. Reporting entity

(a) Organisation and operations

ASCE Group OJSC (the "Company") is an open joint stock company incorporated in the Republic of Armenia. The Company was established as a result of privatization of Haydzul CJSC (previously "Autodzul" state enterprise) as an open joint stock company on 4 September 1998.

The Company's registered office is 2 Yerevanyan Street, Charentsavan, Kotayk region, Republic of Armenia.

The Company's principal activity is production and distribution of steel rebars and balls at plant located in Charentsavan. The Company's products are sold in the Republic of Armenia and abroad.

The Company's major shareholders are: Mr. Mikhail Harutyunyan (49.35%) and Moraco Holding Limited (49.35%). Related party transactions are disclosed in Note 22.

The Company is ultimately controlled by a single individual, Mr. Mikhail Harutyunyan, who has the power to direct the transactions of the Company at his own discretion and for his own benefit. He also has a number of other business interests outside the Company.

(b) Business environment

The Company's operations are primarily located in Armenia. Consequently, the Company 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 the Armenia. The preliminary IFRS financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2. Basis of accounting

(a) Statement of compliance

These preliminary IFRS financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), following the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards.*

The Company does not prepare preliminary IFRS financial statements in accordance with local GAAP, hence, there is no reconciliation presented between local GAAP and IFRS.

When the Company prepares its first complete set of IFRS financial statements, as at and for the year ending 31 December 2020, they will be prepared in accordance with the Standards and Interpretations in effect as at that date.

Accordingly, these financial statements, which are intended to form the comparative information in the Company's first complete set of financial statements, have been prepared by management using its best knowledge of the Standards and Interpretations expected to be in effect at 31 December 2020, and the accounting policies expected to be applied in the Company's first complete set of IFRS financial statements. Any changes to such Standards, Interpretations or accounting policies may require adjustment to these financial statements before they comprise such comparative information.

These preliminary IFRS financial statements, except for the statement of financial position as at 1 January 2019, do not themselves include corresponding figures for the prior year.

3. Functional and presentation currency

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

4. Use of estimates and judgements

The preparation of preliminary IFRS financial statements in conformity with IFRSs requires management to make judgements, 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the preliminary IFRS financial statements is included in Note 11 (a) Property, plant and equipment: key assumptions underlying recoverable amounts and Note 25 (g)(iii) – useful lives of property, plant and equipment.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the Note 11 (a) Property, plant and equipment: key assumptions underlying recoverable amounts.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 11(a).

5. Revenue

(a) Revenue streams

The Company generates revenue primarily from the sale of steel rebars and balls.

’000 AMD	**2019**
Sales of goods	9,761,957
Revenue from services provided	4,060
Total revenues	**9,766,017**

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major products and timing of revenue recognition for the year ended 31 December 2019.

’000 AMD	**Mining companies**	**Construction companies**	**Companies from other industries**	**Total**
Primary geographical markets				
Republic of Armenia	3,528,992	4,976,930	1,214,686	9,720,608
Export to Africa	-	-	45,409	45,409
	3,528,992	**4,976,930**	**1,260,095**	**9,766,017**
Major products				
Steel rebars	-	4,976,930	796	4,977,726
Steel balls	3,528,992	-	1,255,239	4,784,231
Transportation services	-	-	4,060	4,060
	3,528,992	**4,976,930**	**1,260,095**	**9,766,017**
Timing of revenue recognition				
Products transferred at a point in time	3,528,992	4,976,930	1,256,035	9,761,957
Services transferred over time	-	-	4,060	4,060
Revenue from contracts with customers	**3,528,992**	**4,976,930**	**1,260,095**	**9,766,017**

(c) Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

'000 AMD	Note	31 December 2019	1 January 2019
Receivables, which are included in 'trade and other receivables'	13	621,797	505,009
Contract liabilities	18	1,039,183	688,940

The contract liabilities relate to the advance consideration received from customers.

The amount of AMD 688,940 thousand recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2019.

No information is provided about remaining performance obligations at 31 December 2019 or at 1 January 2019 that have an original expected duration of one year or less, as allowed by IFRS 15.

(d) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Sale of steel rebars and balls	Customers obtain control of the goods when the goods are delivered to the specified point or dispatched from the Company's warehouse according to sales contracts. Invoices are generated at that point in time. Invoices are usually payable within two months period. No discounts, loyalty points or returns are offered for the goods.	Revenue is recognised when the goods are delivered or dispatched from at the specified place by the contract.
Rendering of transportation services	As part of sales of goods, the Company also performs transportation services for goods sold to the customers. Invoices are usually payable within two months period.	Revenue is recognised over the time from transfer of control over the goods till completion of the transportation service based on time elapsed.

6. Cost of sales

'000 AMD	**2019**
Materials	3,599,173
Depreciation	1,028,914
Utilities	1,429,863
Labour and wages	617,930
Other	21,122
	6,697,002

Expenses by nature

'000 AMD	**Note**	**2019**
Changes in inventories of finished goods and work in progress	12	(264,393)
Materials	6, 7	3,775,701
Utilities	6, 7	1,495,783
Depreciation	11	1,349,712
Wages and salaries	6, 7	749,582
Audit and consulting fees	7	19,660
Insurance and bank charges	7	17,474
Security	7	6,201
Taxes, other than on income	7	5,675
Write-off of prepayments given	8	24,772
Other expenses	6, 7, 8	52,821
		7,232,988

7. Administrative expenses

’000 AMD	**2019**
Wages and salaries*	117,459
Office and utility expenses	24,542
Audit and consulting fees	19,660
Insurance and bank charges	17,474
Depreciation	10,166
Security	6,201
Taxes, other than on income	5,675
Other	21,533
	222,710

* Total employee benefits for 2019 amounted to AMD 872,005 thousand.

8. Other expenses

’000 AMD	**2019**
Depreciation from idle time	278,337
Write-off of prepayments given	24,772
Fines and penalties	8,470
Reversal of impairment allowance on trade receivables (Note 19 (c) (ii))	(1,724)
Other	3,421
	313,276

9. Net finance costs

’000 AMD	**2019**
Interest income under the effective interest method on cash and cash equivalents	247
Net foreign exchange gain	189,030
Finance income	**189,277**
Financial liabilities measured at amortized cost – interest expense	(798,124)
Unwind of discount on long-term payables	(11,296)
Finance costs	**(809,420)**
Net finance costs recognized in profit or loss	**(620,143)**

10. Income taxes

(a) Amounts recognised in profit or loss

The Company’s applicable tax rate is the income tax rate of 20%.

’000 AMD	**2019**
Current tax expense	
Current year	142,786
	142,786
Deferred tax expense	
Origination and reversal of temporary differences	(18,704)
Total tax expense	**124,082**

Reconciliation of effective tax rate:

	2019	
	’000 AMD	**%**
Profit before tax from continuing operations	1,895,140	100%
Income tax at applicable tax rate	379,028	20%
Reduction in tax rate*	(304,213)	(16)%
Non-deductible expenses	49,267	3%
	124,082	**7%**

* The amount recognized represents the effect of reduction in the income tax rate from 20% to 18% according to changes in the RA tax legislation, with effective date of 1 January 2020.

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
’000 AMD	**31 December 2019**	**1 January 2019**	**31 December 2019**	**1 January 2019**	**31 December 2019**	**1 January 2019**
Property, plant and equipment	-	-	2,804,963	2,797,856	2,804,963	2,797,856
Inventories	(27,087)	-	-	23,906	(27,087)	23,906
Trade and other receivables	(22,148)	(31,639)	-	-	(22,148)	(31,639)
Trade and other payables	(22,640)	(41,173)	-	-	(22,640)	(41,173)
Loans and borrowings	-	-	4,830	7,672	4,830	7,672
Net tax (assets)/liabilities	**(71,875)**	**(72,812)**	**2,809,793**	**2,829,434**	**2,737,918**	**2,756,622**

(c) Movement in deferred tax balances

All movements in deferred tax balances are recognized in profit or loss.

11. Property, plant and equipment

Property, plant and equipment has been revalued to determine deemed cost as part of the adoption of IFRSs.

’000 AMD	**Land, buildings and structures**	**Machinery and equipment**	**Transport vehicles**	**Other**	**Construction in progress**	**Total**
Deemed cost						
Balance at 1 January 2019	10,439,572	19,214,386	170,220	73,031	-	29,897,209
Additions	73,771	253,592	123,256	33,224	128,137	611,980
Disposals	-	-	(5,635)	-	-	(5,635)
Balance at 31 December 2019	**10,513,343**	**19,467,978**	**287,841**	**106,255**	**128,137**	**30,503,554**
Depreciation and impairment losses						
Balance at 1 January 2019	-	-	-	-	-	-
Depreciation for the year	287,860	1,040,358	15,824	5,670	-	1,349,712
Balance at 31 December 2019	**287,860**	**1,040,358**	**15,824**	**5,670**	**-**	**1,349,712**
Carrying amounts						
At 1 January 2019	10,439,572	19,214,386	170,220	73,031	-	29,897,209
At 31 December 2019	**10,225,483**	**18,427,620**	**272,017**	**100,585**	**128,137**	**29,153,842**

Depreciation expense of AMD 1,061,209 thousand has been charged to cost of production, AMD 10,166 thousand to administrative expenses and AMD 278,337 thousand to other expenses.

(a) Revaluation

The Company used an exemption under IFRS 1 to use fair value in its opening IFRS statement of financial position as deemed cost for an item of property, plant and equipment. No other exemption from IFRS 1 were used.

In 2019, management commissioned VM-RP LLC to independently appraise property, plant and equipment as at 1 January 2019. The depreciated replacement cost of property, plant and equipment was determined to be AMD 33,232,543 thousand, which has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used (see Note 4).

The majority of the Company’s property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. Except for vehicles and several land and buildings, which were appraised on the basis of recent market transactions, the market for similar property, plant and equipment is not active in the Republic of Armenia and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently, the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

Depreciated replacement cost was estimated based on internal sources and an analysis of the Armenian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc., and industry experts and suppliers of property, plant and equipment were contacted both in the Republic of Armenia and abroad.

For deriving deemed cost of property, plant and equipment, in addition to the determination of the depreciated replacement cost, economic obsolesce test was conducted, which resulted in depreciated replacement cost values being decreased by AMD 3,312,278 thousand in arriving at the above value.

The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on past experience, actual operating results and the Company's five-year business plan.
- Total production at the plants was projected at about 34,454 units in the first year of the business plan. The anticipated annual production growth included in the cash flow projections was set with reference to Armenian GDP growth rate as published by Economist Intelligence Unit (EIU) for the years 2019 to 2023. Management planned to achieve production volume of 41,008 by the fifth year of the business plan.
- Sales prices were projected with reference to Consensus Economics Inc. forecasts for steels prices
- Unit production costs and other costs were expected to increase in line with the inflation as published by EIU.
- A pre-tax discount rate of 17.46% was applied. The discount rate was estimated based on an industry average weighted average cost of capital.
- Annual capital investments of AMD 100,000 thousand were projected for the first 4 years. Starting from the 5th year, average capital investments rate for the industry of 4.88% was used.
- A terminal value was derived at the end of a 5th year interim period. A terminal rate of 3% was used in estimating the terminal value for the plants, considering the long-term projected inflation rate.

The above estimates were particularly sensitive in the following area:

- An increase/decrease of 1% in the discount rate used would have caused the discounted amount of future cash flows to equal to AMD 27,968,690 thousand and AMD 32,175,752 thousand respectively.
- An increase/decrease of 1% in the capital investments rate (capital investments/sales) used for deriving terminal value would have caused the discounted amount of future cash flows to equal to AMD 29,493,803 thousand and AMD 30,346,727 thousand respectively.

(b) Security

At 31 December 2019 property, plant and equipment with a carrying amount of AMD 28,679,077 thousand (1 January 2019: AMD 29,711,363 thousand) are pledged as security to secure bank loan (see Note 17(a)).

12. Inventories

’000 AMD	31 December 2019	1 January 2019
Work in progress	1,916,604	927,880
Raw materials	1,430,979	961,277
Finished goods	412,848	1,137,179
Spare parts	322,776	185,823
Raw materials in transit	136,518	291,505
Fuel and consumables	92,821	71,140
Other	7,234	103,778
	4,319,780	**3,678,582**
Write-down of inventories to their net realisable value	-	(121,315)
	4,319,780	**3,557,267**

In 2019 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to AMD 3,599,173 thousand.

13. Trade and other receivables

’000 AMD	31 December 2019	1 January 2019
Trade receivables	621,797	505,009
Other receivables	18,902	9,797
Impairment allowance for trade receivables	(9,608)	(11,332)
Trade and other receivables included in loans and receivables category	**631,091**	**503,474**
Taxes receivable	40,417	97,793
Prepayments given	304,584	223,006
Total trade and other receivables	**976,092**	**824,273**

The Company’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 19.

14. Cash and cash equivalents

’000 AMD	**31 December 2019**	**1 January 2019**
Petty cash	841	11,514
Bank balances	153,851	119,142
Cash and cash equivalents in the preliminary IFRS statement of cash flows	**154,692**	**130,656**

The Company’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.

15. Capital and reserves

(a) Share capital

The authorised, issued and fully paid share capital as at 31 December 2019 comprises of 7,865,480 ordinary shares at par value of AMD 150 (1 January 2019: 7,865,480 shares at par value of AMD 150).

All ordinary shares rank equally with regard to the Company’s residual assets.

At 31 December 2019 the two major shareholders pledged their 98.7% shareholdings (1 January 2019: 98.7%) to secure a bank loan (see Note 17(a)).

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends

In accordance with Armenian legislation the Company’s distributable reserves are determined based on the Company’s statutory financial statements prepared in accordance with International Financial Reporting Standards. During 2019 no dividends were declared or paid.

16. Capital management

The Company has no formal policy for capital management, but management seeks to maintain a sufficient capital base for meeting the Company’s operational and strategic needs. This is achieved with efficient cash management and constant monitoring of Company’s revenues and profit, and long-term investment plans mainly financed through loans and borrowings from shareholders and banks. With these measures the Company aims for steady profit growth.

The Company is not subject to externally imposed capital requirements.

17. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 19.

'000 AMD	**31 December 2019**	**1 January 2019**
Non-current liabilities		
Unsecured borrowings from other related parties	-	8,410,242
	-	**8,410,242**
Current liabilities		
Secured bank loans	5,503,101	6,571,096
Unsecured borrowings from shareholders	4,693,621	4,831,226
Unsecured borrowings from other related parties	9,795,608	1,727,089
	19,992,330	**13,129,411**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2019		**1 January 2019**	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	USD	6.0%	2021	4,491,564	4,483,946	5,536,038	5,521,364
Secured bank loan	USD	6.50%	2022	719,550	719,550	-	-
Secured bank loan	EUR	8.0%	2020	299,605	299,605	1,049,732	1,049,732
Unsecured borrowings from shareholders	AMD	0.0%	On demand	2,888,439	2,888,439	3,011,389	3,011,389
Unsecured borrowings from shareholders	USD	0.0%	On demand	1,663,600	1,663,600	1,677,645	1,677,645
Unsecured borrowings from shareholders	EUR	3.35%	On demand	141,582	141,582	142,192	142,192
Unsecured borrowings from other related parties	USD	7.0%	2020	8,761,247	8,761,247	8,410,242	8,410,242
Unsecured borrowings from other related parties	USD	0.0%	On demand	929,596	929,596	1,167,903	1,167,903
Unsecured borrowings from other related parties	EUR	0.0%	On demand	104,765	104,765	559,186	559,186
Total interest-bearing liabilities				**19,999,948**	**19,992,330**	**21,554,327**	**21,539,653**

Bank loans are secured by the following:

- At 31 December 2019 property, plant and equipment with a carrying amount of AMD 28,679,077 thousand (1 January 2019: AMD 29,711,363 thousand) are pledged as security to secure bank loan (see Note 10(b)).
- 98.7% of Company's shares (1 January 2019: 98.7%), see Note 15(a).

(b) Breach of loan covenant

The Company has secured bank loans that amount to AMD 5,503,101 thousand at 31 December 2019 and AMD 6,571,096 thousand as at 1 January 2019. According to the terms of the agreement, these loans are repayable in two years as at 31 December 2019 (three years as at 1 January 2019). The loans contain a covenant stating that at all times, the Tangible Net Worth of the Borrower shall not be less than the equivalent of AMD 15,000,000 thousand. The Company breached this covenant as at 31 December 2019 and 1 January 2019. As a result of this breach, the lenders can request repayment on demand and the Company has classified the loans as short-term loans as at 31 December 2019 and 1 January 2019. As at the date of signing of these preliminary IFRS financial statements the banks have not requested the early repayment of the loan, and new loans were provided to the Company in 2020.

For one of the loans amounting to AMD 719,550 thousand at 31 December 2019 and repayable in two years included in the above secured bank loans, the Management has obtained a waiver in September 2020.

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities
'000 AMD	**Loans and borrowings**
Balance at 1 January 2019	**21,539,653**
Changes from financing cash flows	
Proceeds from loans and borrowings	763,592
Repayment of loans and borrowings	(1,816,330)
Total changes from financing cash flows	**(1,052,738)**
The effect of changes in foreign exchange rates	**(185,225)**
Other changes	
Interest expense	798,124
Interest paid	(395,421)
Set off with receivables	(712,063)
Total liability-related other changes	**(309,360)**
Balance at 31 December 2019	**19,992,330**

18. Trade and other payables

'000 AMD	**31 December 2019**	**1 January 2019**
Non-current		
Trade payables	-	128,893
	-	**128,893**
Current		
Trade payables	2,193,040	2,687,669
Salaries and wages	68,432	59,875
Total financial payables within current trade and other payables	**2,261,472**	**2,747,544**
Prepayments received from customers	1,039,183	688,940
Other taxes payable	144,518	21,105
Vacation reserve	27,814	29,278
	3,472,987	**3,486,867**
Total trade and other payables	**3,472,987**	**3,615,760**

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 19.

19. Fair values and risk management

(a) Accounting classifications and fair values

The estimated fair value of all the financial assets and liabilities approximates their carrying amounts mainly due to their short maturities.

(b) Measurement of fair values

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Loans and receivables	Discounted cash flows	Not applicable.
Other financial liabilities*	Discounted cash flows	Not applicable.

* Other financial liabilities include secured and unsecured bank loans, borrowings received and trade and other payables.

(c) Financial risk management

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

- credit risk (see Note 19(c)(ii));
- liquidity risk (see Note 19(c)(iii));
- market risk (see Note 19(c)(iv)).

(i) Risk management framework

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, 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.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

The carrying amounts of financial assets represent the maximum credit exposure.

Impairment losses on financial assets recognised in profit or loss were as follows.

'000 AMD	**2019**
Impairment loss/(reversal) on trade receivables arising from contracts with customers	(1,724)
Write-off of other receivables	24,772
	23,048

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 5.

The Company does not have a special credit risk policy for its customers, however approximately 93% of Company's revenue is attributable to sales transactions with three largest customers and historically no losses have occurred with these customers and none of these customers' balances have been written off or are credit-impaired at the reporting dates.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of up to two months for customers.

The Company does not require collateral in respect of trade receivables.

At 31 December 2019, the carrying amount of the Company's most significant customer (a mining company with external rating from Moody's of B2) was AMD 565,874 thousand (1 January 2019: AMD 201,094 thousand).

Expected credit loss assessment for customers

The Company allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies such as Moody's Investor Services.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for customers as at 31 December 2019.

31 December 2019 **'000 AMD**	**Weighted average loss rate**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
Trade receivables and contract assets				
Low risk	0.38%	580,377	(2,226)	No
Doubtful	17.82%	41,420	(7,382)	Yes
		621,797	**(9,608)**	

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 1 January 2019.

1 January 2019 **'000 AMD**	**Weighted average loss rate**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
Trade receivables and contract assets				
Low risk	0.29%	464,301	(1,357)	No
Doubtful	24.50%	40,708	(9,975)	Yes
		505,009	**(11,332)**	

The Company defines low and doubtful risk as follows:

Low risk – the customer has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Doubtful risk – the customer for which full repayment is questionable and uncertain. The degree of repayment of amount in question ranges from a complete loss to an uncertain loss unless corrective actions are taken. Doubtful customers are usually nonperforming customers for which the full collection of balance is in threat.

Movements in the allowance for impairment in respect of trade receivables and contract assets

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

’000 AMD	**2019**
Balance at 1 January	(11,332)
Net remeasurement of loss allowance	1,724
Balance at 31 December	**(9,608)**

Cash and cash equivalents

The Company held bank balances of AMD 153,851 thousand at 31 December 2019 (1 January 2019: AMD 119,142 thousand), which represents its maximum credit exposure on these assets.

The bank balances (current accounts) are held with Ameriabank, Converse bank and HSBC Bank of Armenia and the Company does not expect them to fail to meet their obligations.

Per Company’s assessment no impairment loss is recognized on current accounts with banks primarily due to their short maturities.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company’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 Company’s reputation.

The Company maintains the following line of credit:

- Secured letter of credit facility of EUR 3,650,000. The unused part of the letter of credit as at 31 December 2019 amounted to EUR 635,000.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date except for secured bank loans. For secured bank loans initial contractual maturities are shown below even though the banks can request a repayment of these loans on demand due to the breach of loan covenants as at 31 December 2019 and 1 January 2019 (Note 17(b)). The Company has classified the loans as short-term borrowings as at 31 December 2019 and 1 January 2019. As of the date of signing of these preliminary IFRS financial statements, the banks have not requested an early repayment of these loans. The amounts are gross and undiscounted, and include estimated interest payments.

31 December 2019

’000 AMD	Carrying amount	Total	On demand	Less than 2 mths	2-12 months	1-2 years	Over 2 years
Financial liabilities							
Secured bank loans	5,503,101	5,897,185	-	757,060	1,541,364	3,598,761	-
Unsecured borrowings from shareholders	4,693,621	4,693,621	4,693,621	-	-	-	-
Unsecured borrowings from other related parties	9,795,608	10,217,024	1,034,361	-	9,182,663	-	-
Trade and other payables	2,261,472	2,289,287	1,702,432	371,294	215,561	-	-
	22,253,802	**23,097,117**	**7,430,414**	**1,128,354**	**10,939,588**	**3,598,761**	**-**

1 January 2019

’000 AMD	Carrying amount	Total	On demand	Less than 2 mths	2-12 months	1-2 years	Over 2 years
Financial liabilities							
Secured bank loans	6,571,096	7,320,055	-	809,004	1,307,535	1,574,371	3,629,145
Unsecured borrowings from shareholders	4,831,226	4,831,226	4,831,226	-	-	-	-
Unsecured borrowings from other related parties	10,137,331	10,987,279	1,727,089	-	-	9,260,190	-
Trade and other payables	2,876,437	2,876,437	2,295,098	424,582	27,864	128,893	
	24,416,090	**26,014,997**	**8,853,413**	**1,233,586**	**1,335,399**	**10,963,454**	**3,629,145**

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

The breach of covenants led to the reclassification of lending facilities from these lenders in total amount of AMD 3,491,654 thousand within current liabilities in the preliminary IFRS statement of financial position as at 31 December 2019 (1 January 2019: AMD 4,830,548 thousand). As a result, the current liabilities of the Company exceed its current assets as at 31 December 2019 by AMD 18,152,001 thousand. Management has not obtained a waiver from the bank as they intend to refinance the loans by the end of the 2020.

Had not the loans been classified as current, the Company's current liabilities exceeded its current assets by AMD 14,660,347 thousand, which comprised borrowings received from shareholders and other related parties.

The ultimate controlling party of the Company has expressed his intention for further financial and other support to the Company in the foreseeable future.

Considering the above facts, management believes that there are no significant uncertainties regarding the ability of the Company to continue as a going concern.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company'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 Company is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currency of the Company. The currencies in which these transactions primarily are denominated are U.S. Dollar (USD) and Euro (EUR).

Exposure to currency risk

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

'000 AMD	**USD-denominated**	**EUR-denominated**	**USD-denominated**	**EUR-denominated**
	31 December 2019	**31 December 2019**	**1 January 2019**	**1 January 2019**
Trade receivables	-	-	115,779	-
Cash and cash equivalents	308	59,923	36	58,199
Trade payables	(199,150)	(36,928)	(285,358)	(17,214)
Loans and borrowings	(16,557,939)	(545,952)	(16,777,154)	(1,751,110)
Net exposure	**(16,756,781)**	**(522,957)**	**(16,946,697)**	**(1,710,125)**

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

in AMD	**Average rate**	**Reporting date spot rate**	
	2019	**31 December 2019**	**1 January 2019**
USD 1	480.24	479.70	483.75
EUR 1	537.26	553.65	537.46

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AMD, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss before taxes 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**	**Weakening**
	Profit or loss	**Profit or (loss)**
31 December 2019		
AMD 10% movement against USD	1,675,678	(1,675,678)
AMD 10% movement against EUR	52,296	(52,296)
1 January 2019		
AMD 10% movement against USD	1,694,670	(1,694,670)
AMD 10% movement against EUR	171,013	(171,013)

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgement to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Company’s interest-bearing financial instruments was as follows:

’000 AMD	**Carrying amount**	
	31 January 2019	**1 January 2019**
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	19,992,330	21,539,653
	19,992,330	**21,539,653**

Fixed-rate financial liabilities include fixed rate bank loans in total amount AMD 5,503,101 thousand as at 31 December 2019 (1 January 2019: AMD 6,571,096 thousand) for which the banks have the option to revise the interest rate following the change of key rate set by the Central Bank of Armenia (CBA) and the Company have an option to either accept the revised rate or redeem the loan at par without penalty.

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

20. Leases

(a) Leases as lessee

The Company leases transport vehicles. The leases are typically with indefinite term.

All leases are either short-term or the initial contract term has been expired and currently they have indefinite term being mutually cancellable any time by 3 months prior notice (in accordance with the RA Civil Law). The leases are considered short-term as the Company does not have significant leasehold improvements performed on those objects and hence there are no material penalties associated with termination of these contracts. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases.

Information about leases for which the Company is a lessee is presented below.

(i) Amounts recognised in profit or loss

’000 AMD	**2019**
2019 – Leases under IFRS 16	
Expenses relating to short-term leases	7,452

(ii) Amounts recognised in statement of cash flows

’000 AMD	**2019**
Total cash outflow for leases	**7,452**

(b) Leases as lessor

The Company leases out a small part of land plot. The Company has classified this lease as operating lease, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the asset.

Rental income recognised by the Company during 2019 was AMD 2,400 thousand.

21. Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

(b) Litigation

In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the results of operations or financial position of the Company.

(c) 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 preliminary financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

22. Related parties

(a) Parent and ultimate controlling party

The Company's major shareholders are Mr. Mikhail Harutyunyan (49.35%) and Moraco Holding Limited (49.35%). The Company's ultimate controlling party is Mr. Mikhail Harutyunyan.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in employee benefit expenses (see Note 8):

'000 AMD	**2019**
Salaries and bonuses	**33,970**

(ii) Key management personnel transactions

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

'000 AMD	**Transaction value for the year ended 31 December 2019**	**Outstanding balance as at**	
		31 December 2019	**1 January 2019**
Lease of transport vehicle	**720**	-	-

(c) Other related party transactions

'000 AMD	Transaction value for the year ended 31 December 2019	Outstanding balance as at 31 December 2019	Outstanding balance as at 1 January 2019
Sale of goods and services:			
Entities under common control and related to shareholders	5,768,764	(1,039,183)	(688,940)
Purchase of goods and services:			
Entities under common control and related to shareholders	(1,966,116)	(1,357,671)	(2,009,734)
Loans received:			
Shareholders	-	(4,693,621)	(4,831,226)
Entities under common control and related to shareholders	47,337	(9,795,608)	(10,137,331)

All outstanding balances with related parties (except loans and borrowings) are to be settled in cash within six months of the reporting date. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

23. Subsequent events

(i) The COVID-19 outbreak

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Armenian government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-border movement of people and entry restrictions for foreign visitors and instructing business community to transfer employees to work from home.

Due to lockdown and business disruption in many countries, global demand has decreased, leading to state budget reduction, which is likely to have significant economic and social consequences and unavoidably affect public sector spending.

Over the last few months, the Company's business remained stable and its operations were not interrupted. The Company's sales quantities for eleven months of 2020 were higher than the annual sales in 2019. Based on Company's current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Company's financial position and operating results. However, management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Company in the medium and longer term. Management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

(ii) Armed conflict between the Republic of Artsakh and Azerbaijan

On 27 September 2020 the military conflict over Artsakh region was renewed between Azerbaijan and the Republic of Artsakh (known as Nagorno-Karabakh). On the same day Armenia declared martial law and total military mobilization. The main military operations were happening in the Republic of Artsakh.

Although adverse economic and environment consequences both in short and long terms are inevitable, they are yet uncertain and unpredictable. Considering the fact that military operations have been ended, the Company has not identified any known factors that can reasonably affect the Company’s financial condition and business performance; thus, management has not made any estimations, assumptions or analyses regarding the present situation’s impact on the Company’s operations due to lack of precision in its measurement.

24. Basis of measurement

The preliminary IFRS financial statements have been prepared on the historical cost basis except for the property, plant and equipment, which are revalued to determine deemed cost as part of the adoption of IFRSs.

25. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these preliminary IFRS financial statements.

(a) Revenue

Information about the Company’s accounting policies relating to contracts with customers is provided in Note 5(d).

(b) Finance income and finance costs

The Company’s finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income and expense are recognised using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

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 translation are recognized in profit or loss.

(d) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(e) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(f) 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.

(g) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant 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 estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant 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, plant and equipment for the current and comparative periods are as follows:

- Buildings and structures	50-70 years;
- Flow lines	20-25 years;
- Machinery and equipment	15-25 years;
- Vehicles	3-5 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(h) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company 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 trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

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 Company 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 are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company 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

The Company 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 Company'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

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 Company 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 Company 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 Company'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 – Subsequent measurement and gains and losses

The Company classified its financial assets into financial assets at amortised cost category. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

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 Company 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 Company 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 Company 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 Company analogizes to the guidance on the derecognition of financial liabilities.

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

- change 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 Company 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 Company 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 Company 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 Company 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.

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

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

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

(i) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(j) Impairment

Non-derivative financial assets

Financial instruments

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

Loss allowances for trade receivables 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 Company 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 Company's historical experience and informed credit assessment and including forward-looking information.

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

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company 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 Company 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 Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company 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 a loan or advance by the Company on terms that the Company 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 Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company 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 Company 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 Company’s procedures for recovery of amounts due.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax 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.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The recoverable amount of an asset or CGU 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

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.

(k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

26. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted however, the Company has not early adopted the new or amended standards in preparing these preliminary financial statements.

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

- *Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7*
- *Classification of Liabilities as Current or Non-current - Amendments to IAS 1*
- *IFRS 17 Insurance Contracts*