Telcell cjsc
Consolidated Financial Statements
for 2018

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of Telcell cjsc

Opinion

We have audited the consolidated financial statements of Telcell cjsc (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated 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 Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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

KPMG Armenia LLC
28 June 2019

’000 AMD	Note	31 December 2018	31 December 2017*
Assets			
Property and equipment	10	484,858	256,264
Intangible assets	11	59,770	47,043
Goodwill	12	1,157,700	1,157,700
Prepayments		23,948	8,770
Deferred tax assets	9	42,099	36,166
Non-current assets		**1,768,375**	**1,505,943**
Inventories	13	50,040	59,207
Borrowings given	14	42,245	63,288
Trade and other receivables	15	389,810	294,661
Current tax assets		1,555	1,555
Cash and cash equivalents	16	4,928,760	3,186,071
Current assets		**5,412,410**	**3,604,782**
Total assets		**7,180,785**	**5,110,725**
Equity			
Share capital	17	150,000	150,000
Retained earnings		533,387	457,209
Equity attributable to owners of the Company		**683,387**	**607,209**
Non-controlling interest	18	11,889	11,889
Total equity		**695,276**	**619,098**
Liabilities			
Loans and borrowings	20	-	1,140,259
Trade and other payables	21	313,573	66,039
Non-current liabilities		**313,573**	**1,206,298**
Loans and borrowings	20	1,106,626	57,423
Trade and other payables	21	4,984,926	3,156,991
Current tax liabilities		80,384	70,915
Current liabilities		**6,171,936**	**3,285,329**
Total liabilities		**6,485,509**	**4,491,627**
Total equity and liabilities		**7,180,785**	**5,110,725**

* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

'000 AMD	**Note**	**2018**	**2017***
Revenue	6	3,220,046	2,700,018
Commission to agents		(1,127,103)	(760,522)
Other income	7 (a)	139,801	151,865
Personnel expenses		(604,924)	(546,144)
Lease expenses	7 (b)	(414,273)	(388,518)
Depreciation and amortisation		(78,817)	(115,953)
Cash transportation expenses		(52,734)	(56,967)
Support and maintenance expenses		(82,373)	(93,296)
Impairment loss on trade receivables	22(b)(ii)	(2,264)	(3,256)
Other expenses	7 (c)	(298,187)	(295,032)
Results from operating activities		**699,172**	**591,195**
Finance income		34,752	23,469
Finance costs		(67,497)	(42,254)
Net finance costs	8	**(32,745)**	**(18,785)**
Profit before income tax		**666,427**	**573,410**
Income tax expense	9	(140,249)	(122,500)
Profit and total comprehensive income for the year		**526,178**	**450,910**
Profit and total comprehensive income attributable to:			
Owners of the Company		526,178	450,910
Non-controlling interest		-	-
		526,178	**450,910**

* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Comparative information has also been re-presented due to a new impairment loss line item. See Note 5.

These consolidated financial statements were approved by management on 28 June 2019 and were signed on its behalf by:

Aram Azatyan
General Director

Arthur Torosyan
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 49.

’000 AMD	**Note**	**2018**	**2017***
Revenue	6	3,220,046	2,700,018
Commission to agents		(1,127,103)	(760,522)
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’000 AMD	**Attributable to equity holders of the Company**				
	Share capital	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2017	150,000	456,299	606,299	11,889	618,188
Total comprehensive income					
Profit for the year	-	450,910	450,910	-	450,910
Total comprehensive income for the year	**-**	**450,910**	**450,910**	**-**	**450,910**
Transactions with owners of the Company					
Dividends	-	(450,000)	(450,000)	-	(450,000)
Total transactions with owners of the Company	**-**	**(450,000)**	**(450,000)**	**-**	**(450,000)**
Balance at 31 December 2017	**150,000**	**457,209**	**607,209**	**11,889**	**619,098**
Balance at 1 January 2018*	150,000	457,209	607,209	11,889	619,098
Total comprehensive income					
Profit for the year	-	526,178	526,178	-	526,178
Total comprehensive income for the year	**-**	**526,178**	**526,178**	**-**	**526,178**
Transactions with owners of the Company					
Dividends	-	(450,000)	(450,000)	-	(450,000)
Total transactions with owners of the Company	**-**	**(450,000)**	**(450,000)**	**-**	**(450,000)**
Balance at 31 December 2018	**150,000**	**533,387**	**683,387**	**11,889**	**695,276**

* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 49.

'000 AMD	**Note**	**2018**	**2017***
Cash flows from operating activities			
Commission receipts		2,265,130	2,147,475
Commission payments		(1,091,748)	(714,994)
Net receipts from foreign exchange trading activities		94,925	130,142
Receipts from other services provided		146,785	78,302
Other income receipts		44,876	22,025
Payments to employees		(584,234)	(520,015)
Other expenses payments		(921,139)	(738,077)
Interest received		34,752	12,217
Interest paid		(57,798)	(39,654)
Payment on taxes other than on income		(12,217)	(46,926)
Increase in operating liabilities			
Payables to Operators		2,576,089	1,217,225
Deposited amounts from agents		264,334	38,009
Prepayments received from agents		9,306	44,171
Net cash provided from operating activities before income tax paid		**2,769,061**	**1,629,900**
Income tax paid		(136,715)	(85,431)
Cash flows from operations		**2,632,346**	**1,544,469**
Cash flows from investing activities			
Proceeds from sale of property and equipment and intangible assets		5,429	32,073
Purchase of property and equipment and intangible assets		(350,028)	(149,433)
Borrowings provided		(10,520)	(91,301)
Repayment of borrowings given		31,566	46,340
Net cash used in investing activities		**(323,553)**	**(162,321)**
Cash flows from financing activities			
Proceeds from loans and borrowings		343,570	1,469,363
Repayment of loans and borrowings		(432,501)	(1,028,340)
Dividends paid		(450,000)	(283,408)
Net cash (used in)/from financing activities		**(538,931)**	**157,615**
Net increase in cash and cash equivalents		**1,769,862**	**1,539,763**
Cash and cash equivalents at 1 January		3,186,071	1,637,708
Effect of movements in exchange rates on cash and cash equivalents		(27,173)	8,600
Cash and cash equivalents at 31 December	16	**4,928,760**	**3,186,071**

* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 49.

1. Reporting entity

(a) Armenian business environment

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

(b) Organisation and operations

Telcell cjsc (the "Company") and its subsidiaries (the "Group") comprise Armenian close joint stock company and limited liability companies as defined in the Civil Code of the Republic of Armenia. The Company was established in accordance with the legislation of the Republic of Armenia in 2007. The activities of the Company are regulated by the Central Bank of the Armenia (the CBA). The Company received a money remittances license on 24 July 2007.

The Company's principal activities are:

– provision of collection services, e.g. collections of utility, loan, state budget payments from end users on behalf of service providers (Operators) via its own and Agents' terminals;
– money transfers;
– encashement services.

The Company's registered office is 8 Vardanants Street Blind Alley, Yerevan 0010, Republic of Armenia.

The Company conducts its operation through 8 branches and over 1800 payment terminals in the Republic of Armenia. The majority of the assets and liabilities are located in the Republic of Armenia.

The Company's shareholders are: Lendasy Trading ltd (56.28%), Aram Sargsyan (37.91%) and Tatevik Avetisyan (5.81%). The Group is ultimately controlled by Volha Kirnitskaya.

Related party transactions are disclosed in Note 26.

2. Basis of accounting

Statement of compliance

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

This is the first set of the Group's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and 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 the Armenian Dram (“AMD”), which is the Group companies’ functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of consolidated 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 consolidated financial statements and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in Note 12 – key assumptions in the testing of goodwill for impairment and determination of CGU to which goodwill is allocated.

Measurement of fair values

A number of the Group’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 Group 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 Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5. Changes in significant accounting policies

The Group has initially applied IFRS 15 (see (A) and IFRS 9 (see (B) 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 Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these consolidated financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables (see (B)).

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

No impact has been recognized on retained earnings at 1 January 2018 as a result of transition to IFRS 15.

For additional information about the Group's accounting policies relating to revenue recognition, see Note 6(d).

B. 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 Group 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 consolidated statement of profit or loss and other comprehensive income. Previously, the Group's approach was to include the impairment of trade receivables in finance costs. Consequently, the Group reclassified impairment losses amounting to AMD 3,256 thousand, recognised under IAS 39, from 'finance costs' to 'impairment loss on trade receivables' in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017. Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the consolidated statement of profit or loss and other comprehensive income.

Additionally, the Group 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 (for a description of the transition method, see (iii)).

(i) Classification and measurement of financial assets and financial liabilities

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 Group's accounting policies related to financial liabilities.

For an explanation of how the Group classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see Note 27 (i)(ii) and 27 (i) (iii).

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 Group'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**	**New carrying amount under IFRS 9**
Financial assets				
Trade receivables	Loans and receivables	Amortised cost	239,920	239,920
Borrowings given	Loans and receivables	Amortised cost	63,288	63,288
Cash and cash equivalents	Loans and receivables	Amortised cost	1,870,022	1,870,022
Total financial assets			**2,173,230**	**2,173,230**

'000 AMD	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial liabilities				
Secured bank loans	Other financial liabilities	Other financial liabilities	800,526	800,526
Unsecured borrowings from related parties	Other financial liabilities	Other financial liabilities	340,774	340,774
Borrowings from other parties	Other financial liabilities	Other financial liabilities	56,382	56,382
Trade payables	Other financial liabilities	Other financial liabilities	3,050,750	3,050,750
Total financial liabilities			**4,248,432**	**4,248,432**

As a result of the adoption of IFRS 9 there was no remeasurement and reclassification of financial assets and financial liabilitis.

(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 Group has determined that the application of IFRS 9’s impairment requirements at 1 January 2018 results in no additional allowance for impairment.

Additional information about how the Group measures the allowance for impairment is described in Note 22(b)(ii).

(iii) Transition

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

- The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements.
- The Group has assessed the determination of the business model within which a financial asset is held on the basis of the facts and circumstances that existed at the date of initial application.

6. Revenue

The effect of initially applying IFRS 15 on the Group’s revenue from contracts with customers is described in Note 5. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

(a) Revenue streams

The Group generates revenue primarily from the collection of payments from final customers on behalf of service providers (“Operators”) and services.

’000 AMD	**2018**	**2017**
Revenue from contracts with customers		
Commission from collections	2,957,501	2,517,896
Revenue from services provided	145,389	105,040
Commission from money transfers	53,469	10,499
Commission from encashment services	34,666	53,790
Other revenue	29,021	12,793
Total revenue	**3,220,046**	**2,700,018**

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market and timing of revenue recognition.

'000 AMD	**2018**	**2017**
Market		
Domestic	3,073,795	2,628,930
Other CIS countries	146,251	71,088
	3,220,046	**2,700,018**
Timing of revenue recognition		
Services transferred over time	3,220,046	2,700,018
Revenue from services provided	**3,220,046**	**2,700,018**

(c) Contract balances

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

'000 AMD	**Note**	**31 December 2018**	**1 January 2018**
Receivables, which are included in 'trade and other receivables'	15	298,962	239,920

No information is provided about remaining performance obligations at 31 December 2018 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 Group recognises revenue when it transfers control over a good or service 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 under IFRS 15 (applicable from 1 January 2018)**	**Revenue recognition under IAS 18 (applicable before 1 January 2018)**
Payment collection, encashment and money trasfer services	Acts for payment collection, ecashment or money transfer services are issued on a monthly basis and are usually payable within 30 days.	Revenue from collection, encashment and money transfer services primarily consists of monthly charges for usage of services and is recognized over time as the services are provided. Measure of progress is based on volume of cash collected, encsahments and money transferred.	Revenue from services was recognized over time as the services were provided. Measure of progress was based on volume of cash collected, encsahments and money transferred.
Maintenance and advertising services	Invoices for maintenance and advertising services are issued on a monthly basis and are usually payable within 30 days.	Revenue from maintenance services primarily consists of monthly fixed charges for usage of services and is recognized over time as the services are provided using time elapsed measure of progress.	Revenue from services was recognized over time as the services were provided using time elapsed measure of progress.

7. Income and expenses

(a) Other income

’000 AMD	2018	2017
Net income from foreign exchange trading activities	94,925	130,142
Forfaiting of liabilities	17,365	-
Gain on disposal of property and equipment	6,683	4,301
Fines and penalties	4,324	-
Income from sale of inventory	-	7,792
Other	16,504	9,630
	139,801	**151,865**

(b) Lease expenses

’000 AMD	2018	2017
Lease of space for terminals	325,230	313,926
Other lease expenses	89,043	74,592
	414,273	**388,518**

(c) Other expenses

’000 AMD	2018	2017
Outsourced services	31,390	30,525
Bank expenses	26,161	17,491
Advertising and marketing	25,550	87,135
Customer service	24,444	18,813
Utilities and communication	22,288	22,119
Permission fee for press-stand terminals	21,979	-
Travel and representative expenses	20,510	15,801
Professional services	20,222	11,943
Commission fee	18,882	5,951
Taxes and penalties	12,480	1,775
Transportation expenses	11,456	8,471
Write-down of inventory	7,537	14,628
Claims	6,707	1,616
Security	6,264	3,882
Insurance	6,026	4,890
Office supplies	5,378	5,968
Processing system maintenance	-	16,520
Other	30,913	27,504
	298,187	**295,032**

8. Net finance costs

’000 AMD	2018	2017
Recognised in profit or loss		
Interest income on bank accounts	34,033	10,331
Interest income on borrowings given	719	1,886
Net foreign exchange gain	-	11,252
Finance income	**34,752**	**23,469**
Interest expense on loans and borrowings	(55,758)	(39,654)
Net foreign exchange loss	(11,739)	-
Impairment loss on financial assets	-	(2,600)
Finance costs	**(67,497)**	**(42,254)**
Net finance costs recognised in profit or loss	**(32,745)**	**(18,785)**

9. Income taxes

(a) Amounts recognised in profit or loss

The Group’s applicable tax rate is the income tax rate of 20% for Armenian companies.

’000 AMD	2018	2017
Current tax expense		
Current year	(146,183)	(130,740)
	(146,184)	**(130,740)**
Deferred tax expense		
Origination and reversal of temporary differences	5,933	8,240
Total tax expense	**140,251**	**(122,500)**

Reconciliation of effective tax rate:

	2018		2017	
	’000 AMD	**%**	**’000 AMD**	**%**
Profit before income tax	666,427	100%	573,410	100%
Income tax at applicable tax rate	(133,285)	(20%)	(114,682)	(20%)
Non-deductible expenses	(6,966)	(1%)	(7,818)	(1%)
	(140,51)	**(21%)**	**(122,500)**	**(21%)**

(b) Movement in deferred tax balances

’000 AMD	**1 January 2018**	**Recognised in profit or loss**	**31 December 2018**
Property and equipment	10,196	1,601	11,797
Inventories	2,926	1,507	4,433
Borrowings given	1,115	-	1,115
Trade and other receivables	7,343	453	7,796
Loans and borrowings	3,189	-	3,189
Trade and other payables	11,397	2,372	13,769
Net tax assets	**36,166**	**5,933**	**42,099**

’000 AMD	**1 January 2017**	**Recognised in profit or loss**	**31 December 2017**
Property and equipment	12,914	(2,718)	10,196
Inventories	-	2,926	2,926
Borrowings given	595	520	1,115
Trade and other receivables	6,390	953	7,343
Loans and borrowings	3,189	-	3,189
Trade and other payables	4,838	6,559	11,397
Net tax assets	**27,926**	**8,240**	**36,166**

10. Property and equipment

’000 AMD	Payment processing equipment	Computers and office eqipment	Fixtures and fittings	Motor vehicles	Leasehold improvement	Total
Cost						
Balance at 1 January 2017	517,869	89,263	49,548	21,012	2,938	680,630
Additions	65,915	28,202	8,280	1,617	23,010	127,024
Disposals	(22,681)	-	-	(4,606)	-	(27,287)
Balance at 31 December 2017	**561,103**	**117,465**	**57,828**	**18,023**	**25,948**	**780,367**
Balance at 1 January 2018	561,103	117,465	57,828	18,023	25,948	780,367
Additions	263,822	19,548	9,995	2,648	4,209	300,222
Disposals	(6,638)	-	(410)	(8,905)	-	(15,953)
Balance at 31 December 2018	**818,287**	**137,013**	**67,413**	**11,766**	**30,157**	**1,064,636**
Depreciation						
Balance at 1 January 2017	329,253	58,496	28,609	11,398	1,550	429,306
Depreciation for the year	75,207	14,920	8,157	1,834	1,104	101,222
Disposals	(3,113)	-	-	(3,312)	-	(6,425)
Balance at 31 December 2017	**401,347**	**73,416**	**36,766**	**9,920**	**2,654**	**524,103**
Balance at 1 January 2018	401,347	73,416	36,766	9,920	2,654	524,103
Depreciation for the year	44,292	14,128	5,832	1,232	2,527	68,011
Disposals	(3,021)	-	(410)	(8,905)	-	(12,336)
Balance at 31 December 2018	**442,618**	**87,544**	**42,188**	**2,247**	**5,181**	**579,778**
Carrying amounts						
At 1 January 2017	188,616	30,767	20,939	9,614	1,388	251,324
At 31 December 2017	159,756	44,049	21,062	8,103	23,294	256,264
At 31 December 2018	**375,669**	**49,469**	**25,225**	**9,519**	**24,976**	**484,858**

(a) Change in estimates

During 2018, the Group conducted an operational efficiency review. As a result, the expected useful lives of payment processing equipment increased and their estimated residual values decreased. The effect of these changes on depreciation expense in current and future periods is as follows:

’000 AMD	2018	2019	2020	2021	Later
(Decrease)/increase in depreciation expense	(45,172)	(20,010)	(6,394)	11,703	59,873

11. Intangible assets

’000 AMD	Computer software	Licenses	Total
Cost			
Balance at 1 January 2017	94,157	12,567	106,724
Additions	1,570	1,300	2,870
Balance at 31 December 2017	**95,727**	**13,867**	**109,594**
Balance at 1 January 2018	95,727	13,867	109,594
Additions	21,311	2,222	23,533
Balance at 31 December 2018	**117,038**	**16,089**	**133,127**
Amortisation			
Balance at 1 January 2017	43,121	4,699	47,820
Amortisation for the year	12,581	2,150	14,731
Balance at 31 December 2017	**55,702**	**6,849**	**62,551**
Balance at 1 January 2018	55,702	6,849	62,551
Amortisation for the year	9,601	1,205	10,806
Balance at 31 December 2018	**65,303**	**8,054**	**73,357**
Carrying amounts			
At 1 January 2017	51,036	7,868	58,904
At 31 December 2017	40,025	7,018	47,043
At 31 December 2018	**51,735**	**8,035**	**59,770**

12. Goodwill

’000 AMD	**31 December 2018**	**31 December 2017**
Goodwill from acquisition of Mega Panther LLC	1,077,950	1,077,950
Goodwill from acquisition of Telcel Service LLC	79,750	79,750
	1,157,700	**1,157,700**

(a) Impairment test for cash-generating units containing goodwil

For the purpose of impairment testing, goodwill is allocated to the Group’s total operations. There is no lower level of CGU within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of this CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing operations of the Group. The recoverable amount of the CGU was determined to be higher than its carrying amount and no impairment loss was recognised.

Key assumptions used in discounted cash flow projections

The key assumptions used in the estimation of value in use are discount rates, and EBITDA margins.

(i) Discount rate

A pre-tax discount rate of 16.8% was applied in determining the recoverable amount of the CGU. The discount rate was estimated based on past experience, and industry average weighted-average cost of capital, which was based on a possible range of debt leveraging of 23.1% at a market interest rate of 11.23%.

(ii) Budgeted EBITDA decrease

Budgeted EBITDA used for impairment testing has been based on historical trend and is calculated based on annual decrease rates for the forecast period up to the point at which the Group’s free cash flows become negative.

- The gradual decrease of EBITDA margin to 14.4% by 2023 is predicted, which is consistent with the historical declining trend.
- EBITDA after 2023 forecasting period is based on compound annual growth rate of EBITDA margin for 2016-2023 period based on historical values and the forecasts for 2019-2023. .

(iii) Sensitivity to changes in assumptions

A 5% increase in weighted average cost of capital or 9.3% percentage points decrease in compound annual growth rate of EBITDA margin would cause goodwill to become fully impaired.

13. Inventories

’000 AMD	**31 December 2018**	**31 December 2017**
Spare parts	39,931	55,012
Fuel	712	550
Other	9,397	3,645
	50,040	**59,207**
Write-down of inventories in the current year	**7,537**	**14,628**

14. Borrowings given

’000 AMD	**31 December 2018**	**31 December 2017**
Unsecured borrowing to related parties	38,700	39,900
Unsecured borrowing to employees	3,545	9,307
Unsecured borrowing to other parties	-	14,081
	42,245	**63,288**

The Group’s exposure to credit and currency risks and impairment losses related to borrowings given are disclosed in Note 22.

15. Trade and other receivables

’000 AMD	**31 December 2018**	**31 December 2017**
Trade receivables from payment services	220,532	181,483
Trade receivables from money transfers	18,402	23,186
Other trade receivables	60,028	35,251
Total trade receivables	**298,962**	**239,920**
Prepayments given	88,265	48,708
Receivables from budget	1,690	5,791
Other receivables	893	242
Total other receivables	**90,848**	**54,741**
Total trade and other receivables	**389,810**	**294,661**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 22.

16. Cash and cash equivalents

’000 AMD	**31 December 2018**	**31 December 2017**
Cash on hand	1,048,552	671,980
Cash in terminals	1,122,770	644,069
Cash in transit	518,095	234,771
Bank balances		
- largest 5 Armenian banks	1,023,458	1,035,563
- other Armenian banks	1,163,381	565,096
- other non-local banks (non-rated)	52,504	34,592
Cash and cash equivalents in the consolidated statements of cash flows and financial position	**4,928,760**	**3,186,071**

Included in other Armenian banks balances is a balance of AMD 139,405 thousand (2017: nil) which is held for specific use of money stransfers and there is a restriction to the withdrawability.

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 22.

17. Capital and reserves

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares**	
	31 December 2018	**31 December 2017**
In issue at 1 January 31 December, fully paid	150,000	150,000
Authorised shares - par value	AMD 1,000	AMD 1,000

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

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 and its subsidiaries’ distributable reserves are determined based on the Company’s statutory financial statements prepared in accordance with International Financial Reporting Standards.

In 2018 the Company declared dividends of AMD 450,000 thousand (2017: AMD 450,000 thousand) and paid AMD 450,000 thousand (2017: AMD 283,408 thousand). Dividend per share amounted to AMD 3,000 (2017: AMD 3,000).

18. Non-controlling interests

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations.

31 December 2018

'000 AMD	**Mega Panther LLC**	**Intra-group eliminations**	**Total**
NCI percentage	50%		
Non-current assets	20,544		
Current assets	3,244		
Net assets	**23,788**		
Carrying amount of NCI	11,889	-	11,889
Total comprehensive income	-		
Net increase in cash and cash equivalents	-		

31 December 2017

'000 AMD	**Mega Panther LLC**	**Intra-group eliminations**	**Total**
NCI percentage	50%		
Non-current assets	20,544		
Current assets	3,244		
Net assets	**23,788**		
Carrying amount of NCI	11,889	-	11,889

19. Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group monitors capital using a ratio of adjusted net debt to equity. For this purpose, adjusted net debt is defined as total liabilities, comprising interest-bearing loans and borrowings less cash and cash equivalents.

The Group's adjusted net debt to equity ratio at 31 December 2018 and 2017 was as follows:

'000 AMD	**2018**	**2017**
Total liabilities	6,485,509	4,491,627
Less: cash and cash equivalents	4,928,760	3,186,071
Net debt	**1,556,749**	**1,305,556**
Total equity	695,276	619,098
Net debt to equity ratio at 31 December	2.24	2.11

There were no changes in the Group's approach to capital management during the year.

The CBA sets and monitors capital requirements for the Company.

The Company defines as capital those items defined by statutory regulation as capital for payment organizations. Under the current capital requirements set by the CBA, payment organizations have to maintain a minimum total capital of AMD 100,000 thousand (2017: AMD 100,000 thousand). The Company is in compliance with the minimum total capital requirements as at 31 December 2018 and 2017. The Company is not imposed to other statuary requirements.

20. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 22.

'000 AMD	**31 December 2018**	**31 December 2017**
Non-current liabilities		
Secured bank loan	-	800,526
Unsecured borrowing from related parties	-	339,733
	-	**1,140,259**
Current liabilities		
Current portion of secured bank loans	800,526	-
Current portion of unsecured borrowing from related party	306,100	1,041
Current portion of secured borrowing from other party	-	17,869
Current portion of unsecured borrowing from other party	-	38,513
	1,106,626	**57,423**
	1,106,626	**1,197,682**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2018		31 December 2017	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	AMD	2%	2019	800,526	800,526	800,526	800,526
Unsecured borrowing from related parties 1	AMD	11%	2019	306,100	306,100	306,936	306,936
Unsecured borrowing from related parties 2	AMD	0%	2019	-	-	32,797	32,797
Unsecured borrowing from related parties 3	USD	10%	2018	-	-	1,041	1,041
Secured borrowing from other party	AMD	11%	2018	-	-	17,869	17,869
Unsecured borrowing from other party	USD	11%	2018	-	-	38,513	38,513
Total interest-bearing liabilities				**1,106,626**	**1,106,626**	**1,197,682**	**1,197,682**

As at 31 December 2018 and 2017 100% of Group shares are pledged under the secured bank loan. In addition, the cash held on account with the bank by substance secures that loan.

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

'000 AMD	**Loans and borrowings**	
	2018	**2017**
Balance at 1 January	**1,197,682**	**592,302**
Changes from financing cash flows		
Proceeds from loans and borrowings	343,570	1,469,363
Repayment of loans and borrowings	(432,501)	(1,028,340)
Total changes from financing cash flows	**(88,931)**	**441,023**
The effect of changes in foreign exchange rates	**(85)**	**(1,938)**
Borrowings received from dividends declared	**-**	**166,597**
Other changes		
Interest expense	55,758	39,654
Interest paid	(57,798)	(39,956)
Balance at 31 December	**1,106,626**	**1,197,682**

21. Trade and other payables

’000 AMD	**31 December 2018**	**31 December 2017**
Payables to Operators	4,571,100	2,694,429
Payables to Agents	141,039	105,742
Other trade payables	52,982	79,332
Deposited amounts from Agents	313,573	164,030
Payables to employees	4,237	7,217
Total trade payables	**5,082,931**	**3,050,750**
Prepayments received	117,593	108,125
Accrues expenses	61,876	43,416
Payables to state budget	36,099	20,739
Total other payables	**215,568**	**172,280**
Total trade and other payables	**5,298,499**	**3,223,030**
Current	4,984,926	3,156,991
Non-current	313,573	66,039

Payables to operators represent collections made on behalf of the operators and not transferred as at the reporting date.

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22.

22. Fair values and risk management

(a) Accounting classifications and fair values

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

(b) Financial risk management

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

- credit risk (see 22(b)(ii));
- liquidity risk (see 22(b)(iii));;
- market risk (see 22(b)(iv)).

(i) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities. The Group, 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.

The Group's Internal Audit oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures.

(ii) Credit risk

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying amount	
'000 AMD	**2018**	**2017**
Borrowings given	42,245	63,288
Trade receivables	298,962	239,920
Cash and cash equivalents	2,757,438	1,870,022
	3,098,645	**2,173,230**

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

'000 AMD	**2018**	**2017**
Impairment loss on trade receivables arising from contracts with customers	(2,264)	(3,256)

Borrowings given

The Group's policy is to provide borrowings mainly to related parties for which it does not require collateral.

Trade and other receivables

The Group'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 the Group's customer base, including the default risk of the industry and country, in which customers operate, particularly in the currently deteriorating economic circumstances.

Approximately 77% of trade and other receivables represent receivables from payment services and bear no credit risk based on the fact the payables from collections to the same counterparties as at 31 December 2018 exceed the receivable amount in multiple times (Note 21, payables to operators).

The Group does not require collateral in respect of trade and other receivables.

The exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

	Carrying amount	
’000 AMD	**2018**	**2017**
Domestic	286,257	234,540
Other CIS countries	12,705	5,380
	298,962	**239,920**

The exposure to credit risk for trade receivables at the reporting date by type of counterparty was as follows:

	Carrying amount	
’000 AMD	**2018**	**2017**
Telecommunication companies	97,922	80,242
Banks and other financial institutions	73,343	61,816
Online gambling	66,226	48,412
Utilities	22,187	19,003
Trading	10,819	17,551
Other	28,465	12,896
	298,962	**239,920**

The 10 most significant customers of the Group account for AMD 190,837 thousand of the trade and other receivables carrying amount at 31 December 2018 (2017: AMD 146,700 thousand).

Comparative information under IAS 39

The ageing of trade receivables as at the reporting date was as follows.

’000 AMD	**Gross 2017**	**Impairment 2017**	**Net 2017**
Not past due	151,615	(343)	151,272
Past due 1–30 days	63,411	(187)	63,224
Past due 31–120 days	12,628	(207)	12,421
Past due 120–180 days	3,077	(373)	2,704
Past due more than 180 days	13,445	(3,146)	10,299
	244,176	**(4,256)**	**239,920**

The Group 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 Moody's Investors Service credit rating agency.

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and type of product purchased.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from customers with small balances as at 31 December 2018.

31 December 2018 **'000 AMD**	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance**	**Credit-impaired**
Current (not past due)	0.6%	70,300	(401)	No
1–30 days past due	0.5%	140,414	(768)	No
31–60 days past due	1.5%	48,873	(736)	No
61–90 days past due	6.6%	15,256	(1,009)	No
More than 90 days past due	11.8%	30,639	(3,606)	Yes
		305,482	**(6,520)**	

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 and contract assets during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

'000 AMD	**2018**	**2017**
Balance at 1 January under IAS 39	4,256	1,000
Net remeasurement of loss allowance	2,264	3,256
Balance at 31 December	**6,520**	**4,256**

Cash and cash equivalents

The Group held cash and cash equivalents of AMD 2,757,438 thousand at 31 December 2018 (2017: AMD 1,870,022 thousand), which represents its credit exposure on these assets. AMD 2,062 thousand out of total balance are held with bank and financial institution counterparties, which are rated B1-B3 based on Moody's rating agency ratings. Cash in transit is secured by prepayments received (deposited amounts from Agents, Note 21), guarantees and pledged payment processing equipment.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, no impairment allowance is recognised on current accounts and cash in transit.

(iii) Liquidity risk

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

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments.

31 December 2018		**Contractual cash flows**						
’000 AMD	**Carrying amount**	**Total**	**On demand**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 yrs**
Non-derivative financial liabilities								
Loans and borrowings	1,106,626	1,155,027	-	6,961	1,148,066	-	-	-
Trade payables	5,082,931	5,082,931	13,801	4,769,358	920	118,219	41,233	139,400
	6,189,557	**6,237,958**	**13,801**	**4,776,319**	**1,148,986**	**118,219**	**41,233**	**139,400**

31 December 2017		**Contractual cash flows**						
’000 AMD	**Carrying amount**	**Total**	**On demand**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 yrs**
Non-derivative financial liabilities								
Loans and borrowings	1,197,682	1,296,401	-	52,119	55,622	1,188,660	-	-
Trade payables	3,050,750	3,050,750	6,321	2,886,720	92,670	920	64,119	-
	4,248,432	**4,347,151**	**6,321**	**2,938,839**	**148,292**	**1,189,580**	**64,119**	**-**

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

(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 Group'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 Group 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 currencies of Group entities. The currencies in which these transactions primarily are primarily denominated are USD, EUR and RUB.

Exposure to currency risk

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

'000 AMD	**USD-denominated**	**EUR-denominated**	**RUB-denominated**	**USD-denominated**	**EUR-denominated**	**RUB-denominated**
	2018	**2018**	**2018**	**2017**	**2017**	**2017**
Trade receivables	1,037	175	1,650	1,173	615	22,897
Cash and cash equivalents	36,364	63,555	168,009	24,068	28,136	85,584
Loans and borrowings	-	-	-	(39,554)	-	-
Trade payables	(4,397)	-	(141,984)	(2,282)	(1,166)	-
Net exposure	**33,004**	**63,730**	**27,675**	**(16,595)**	**27,585**	**108,481**

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

in AMD	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**2018**	**2017**
USD 1	483.03	482.63	483.75	484.1
EUR 1	570.05	546.15	553.65	580.1
RUB 1	7.71	8.28	6.97	8.4

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AMD, as indicated below, against USD, EUR and RUB 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 gain (loss) from variance in foreign currency exchange rates is non-taxable (non-deductable). 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 2018		
AMD 10% movement against USD	(3,300)	3,300
AMD 10% movement against EUR	(6,373)	6,373
AMD 10% movement against RUB	(2,768)	2,768
31 December 2017		
AMD 10% movement against USD	1,660	1,660
AMD 10% movement against EUR	(2,759)	2,759
AMD 10% movement against RUB	(10,848)	10,848

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 Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Exposure to interest rate risk

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

’000 AMD	**Carrying amount**	
	2018	**2017**
Fixed rate instruments		
Financial assets	1,060,587	587,269
Financial liabilities	(1,106,626)	(1,164,885)
	(46,039)	**(577,616)**

Fair value sensitivity analysis for fixed rate instruments

The Group 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.

23. Subsidiaries

The subsidiaries of the group are as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal activities**	**2018**	**2017**
Telcell Service LLC	Republic of Armenia	Principal activities are provision of advertising space on payment terminals and technical maintenance services for the terminals	100%	100%
Mega Panther LLC	Republic of Armenia	Operations of the company are ceased since 2016	50%	50%

24. Operating leases

Leases as lessee

The Company leases a number of shop premises under operating leases. The lease agreements are cancellable with 1 to 6 months prior written notice.

Future minimum lease payments

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows:

’000 AMD	**2018**	**2017**
Less than 6 months	**37,598**	**38,757**

25. Contingencies

(a) Insurance

The insurance industry in 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 Group has insurance coverage for the payment terminals and for the cash in payment terminals. However the Group does not have full coverage for its other facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

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

26. Related parties

(a) Parent and ultimate controlling party

The Company's parent company is Lendasy Trading ltd. incorporated in Cyprus, which is ultimately controlled by a single individual Ms.Volha Kirnitskaya.

No publicly available financial statements are produced by the Company's ultimate parent company.

(b) Transactions with the members of the Board of Directors and the Management

(i) Board of Directors and Management remuneration

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

'000 AMD	**2018**	**2017**
Salaries and bonuses	**89,468**	**79,712**

(ii) Transactions with Board of Directors and Management

'000 AMD	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2018	**2017**	**2018**	**2017**
Borrowings given	-	53,200	38,700	39,900
Loans and borrowings received	-	172,300	172,300	172,612

Borrowings given are interest free. Loans and borrowings are at 11% and repayable in 2019.

(iii) Transactions with owners

'000 AMD	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2018	**2017**	**2018**	**2017**
Loans and borrowings received:				
Shareholders	-	166,597	133,800	168,162

Loans and borrowings received are at 11% and repayable in 2019.

27. Significant accounting policies

Except from the changes disclosed in Note 5, The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (see 27(a)(iii)).

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Revenue

The Group has initially applied IFRS 15 from 1 January 2018. Information about the Group's accounting policies relating to contracts with customers is provided in Note 6 (d). The effect of initially applying IFRS 15 is described in Note 5 (A) and Note 6.

(c) Finance income and costs

The Group'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 or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established. 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.

(d) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised 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 recognised in profit or loss.

(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 a business combination, or 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 recognised 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 recognised 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;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised 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. Future taxable profits are determined based on the reversal of relevant taxable temporary differences.

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 realised; such reductions are reversed when the probability of future taxable profits improves.

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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(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.

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 and equipment

(i) Recognition and measurement

Items of property 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(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 Group.

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

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its 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 and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

	Current period	**Comparative period**
• payment processing equipment	8 years	5 years
• computers and office eqipment	1-5 years	1-5 years
• fixtures and fittings	5 years	5 years
• motor vehicles	5-10 years	5-10 years
• leasehold improvement	5-20 years	5-20 years

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

(h) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- computer software 10 years;
- licenses 10 years.

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

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group 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

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 Group 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.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group 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 Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level[a] 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;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- 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.

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 Group'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 Group 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 Group considers:

- contingent events that would change the amount or timing of cash flows;
- prepayment and extension 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: Policy applicable from 1 January 2018

Financial assets at amortised cost

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 assets – Policy applicable before 1 January 2018

The Group classified its financial assets into loans and receivables; which 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 Group 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 Group 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 Group 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 Group analogizes to the guidance on the derecognition of financial liabilities.

The Group 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;

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 Group 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 Group 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 Group 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 Group 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.

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

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

(j) 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.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Impairment

(i) Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments

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

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI 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 Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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 Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group 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 Group'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 Group on terms that the Group would not consider otherwise;
- indications that a debtor would enter bankruptcy;
- adverse changes in the payment status of borrowers;
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Group 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.

In assessing collective impairment, the Group 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.

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 Group 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.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than property and equipment, 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 goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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 recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group 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.

(m) Leases

The Group leases assets under operating leases and the leased assets are not recognised on the Group's statement of financial position.

(i) 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.

28. New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

(a) IFRS 16 *Leases*

The Group is required to adopt IFRS 16 *Leases* from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated 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 Group 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 Group is a lessee

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

Previously, the Group 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.

The Group does not have finance lease contracts.

No significant impact is expected for the Group’s operating leases.

(ii) Leases in which the Group is a lessor

No significant impact is expected for leases in which the Group is a lessor.

(iii) Transition

The Group 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 Group 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 Group’s consolidated financial statements.

- *IFRIC 23 Uncertainty over Tax Treatments*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *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*