Financial Statements and Independent Auditor's Report

“Orran” Benevolent Non-Governmental Organization

31 December 2017

Contents

Members of the Board of Directors as of 31 December 2017

Armine K. Hovannisian	Chairperson and Executive Director
Susan Yacubian Klein	Member of the Board
Gagik Danielyan	Member of the Board
Ara Krikorian	Member of the Board
Miriam Clemenz	Member of the Board
Thies Clemenz	Member of the Board
Hendrick Beye	Member of the Board
Hayk Hovivyan	Member of the Board
Krikor Krikorian	Financial Director

Independent auditor's report

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To the Board of Directors of "Orran" Benevolent Non-Governmental Organization

Opinion

We have audited the financial statements of "Orran" Benevolent Non-Governmental Organization (the "Organization"), which comprise the statement of financial position as of 31 December 2017, and the statement of activities, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Organization as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

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

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

Gagik Gyulbudaghyan
Managing Partner

Emil Vassilyan, FCCA
Engagement Partner

12 September 2018

Statement of financial position

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016
Assets			
Non-current assets			
Property and equipment	4	738,926	751,343
		738,926	751,343
Current assets			
Inventories		244	1,029
Advances and other receivables		3,546	3,011
Cash and bank balances	5	61,997	127,988
		65,787	132,028
Total assets		804,713	883,371
Net assets and liabilities			
Net assets			
Revaluation reserve	9	166,991	166,991
Accumulated result		32,601	99,626
		199,592	266,617
Non-current liabilities			
Grants related to assets	6	528,097	540,915
Deferred income tax liabilities	7	40,883	41,016
		568,980	581,931
Current liabilities			
Accounts payable		4,367	4,609
Deferred income	8	31,774	29,880
Current income tax liabilities		-	334
		36,141	34,823
Total net assets and liabilities		804,713	883,371

The financial statements were approved on 12 September 2018 by:

Armine K. Hovannisian
President of the Board of Directors

Natalia Tumanova
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Statement of activities

In thousand drams	Note	Year ended 31 December 2017	Year ended 31 December 2016
Income from operations	10	123,433	180,288
Operating expenses	11	(174,645)	(127,988)
Administrative expenses	12	(16,845)	(17,746)
Other expenses		-	(7)
Results from operating activities		(68,057)	34,547
Finance income		-	2,145
Other income		950	2,898
Other financial items	13	139	279
Profit/(loss) before income tax		(66,968)	39,869
Income tax expense	14	(57)	(875)
Profit/(loss) for the year		(67,025)	38,994

The statement of activities is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Statement of changes in net assets

In thousand drams	Revaluation reserve	Accumulated result	Total
as of 1 January 2016	166,991	60,632	227,623
Result for the year	-	38,994	38,994
as of 31 December 2016	166,991	99,626	266,617
Result for the year	-	(67,025)	(67,025)
as of 31 December 2017	166,991	32,601	199,592

The statement of changes in net assets is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Statement of cash flows

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Result for the year	(67,025)	38,994
Adjustments for:		
Depreciation	18,997	19,193
Income from deferred income and grants related to assets	(123,433)	(180,288)
Interest income	-	(2,145)
Income tax expense	57	875
Foreign exchange gain	(139)	(279)
Operating result before working capital changes	(171,543)	(123,650)
Change in advances and other receivables	640	(1,979)
Change in inventories	785	3,371
Change in accounts payable	(242)	1,164
Cash used in operations	(170,360)	(121,094)
Cash flows from investments and grants	110,779	146,761
Income tax paid	(524)	(964)
Interest received	-	2,145
Net cash from/(used in) investing activities	(60,105)	26,848
Cash flows from investing activities		
Deposits returned	-	49,491
Acquisition of property and equipment	(6,025)	(1,610)
Net cash from/(used in) investing activities	(6,025)	47,881
Net increase/(decrease) in cash and bank balances	(66,130)	74,729
Foreign exchange effect on cash	139	279
Cash and bank balances at the beginning of the year	127,988	52,980
Cash and bank balances at the end of the year	61,997	127,988

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Notes to the financial statements

1 Nature of operations and general information

“Orran” Benevolent Non-governmental Organization (the “Organization”) was founded by Raffi K. Hovannisian and Armine K. Hovannisian in April 2000 in Yerevan.

In 15 June 2000 the Organization was registered at the Ministry of Justice of the Republic of Armenia as a Benevolent Non-Governmental Organization.

The goals of the Organization are to:

- stop the increase of truancy and beggar children on the streets and to help needy children and adults;
- organize the daily activities of the children in such a way so as to occupy them with different activities and educational projects so that they will spend less time on the streets;
- provide a meal to the children and adults while they are at the centre;
- assist the adults and the children to get to know each other and to learn about human rights, the basic rights of all people, gender education, about their rights and responsibilities;
- instill love and respect for work, for family, for surroundings, for homeland;
- assist children and their family members with psychological problems; prevent the development of psychological problems emanating from difficult social economics problems;
- take care of the daily medical and hygienic needs of the children and the adults with the assistance of professionals,
- provide free of charge services such as medical, dental, optical, psychological and any other necessary services not prohibited by laws
- provide clothing and other necessary items, when possible;
- hold periodic meetings with parents so to address psychological problems at home due to difficult financial situation;
- observe and discover unhealthy behavior in families and try to find solutions.

To realize these objectives the Organization daily carries out the following services:

- Food service: the Organization serves hot meal to children, elderly and people without shelter;
- Academic assistance: children are tutored by the teachers of the Organizations as well as volunteers;
- Medical and psychological assistance: each child receives a full medical examination twice a year. The pediatrician of “Orran” monitors the children’s healthcare. The psychologist provides psychological consultation;
- Social services: all the children in need receive clothing, shoes, etc. that are donated to or bought by “Orran”;
- Tapestry and wood engraving center: “Orran” strives to identify and develop children’s interests and talents toward a working career;
- Cultural enrichment: through summer camps as well as through a program of visits to historical sites, monuments, theatres, etc. children enjoy their childhood and gain life experience.

During 2011 the Organization has opened its new center in Vanadzor city. The Organization has constructed its own building for this center in 2011.

The average number of employees of the Organization during 2017 was 45 (2016: 44).

The Organization is located at 6 First Yekmalyan Street, Yerevan, Republic of Armenia.

The main financing of the Organization is implemented by “HSBC Bank Armenia” CJSC, the American “Orran” benevolent organization, Mr. Krikor Krikorian, the Adviser to the “Orran” Board of Directors, the Manager of Great Britain “Krikorian Charitable Trust” Company, and other donors.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

Currently, IFRSs do not contain specific guidance for non-profit organizations and non-governmental organizations concerning the accounting treatment and presentation of financial statements. Where IFRSs do not give guidance on how to treat transactions specific to not for profit sector, accounting policies have been based on the general principles of IFRSs, as detailed in the International Accounting Standards Board (“IASB”) *The Conceptual Framework for Financial Reporting.*

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain land and buildings that are stated at their revalued amounts.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram (“dram”), which is the Organization’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Organization.

These financial statements are presented in Armenian drams, since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 15 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Organization has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Organization.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Organization

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Organization.

Management anticipates that all of the relevant pronouncements will be adopted in the Organization’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on

new standards, amendments and interpretations that are expected to be relevant to the Organization's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Organization's financial statements.

IFRS 9 *Financial Instruments*

The IASB released IFRS 9 *Financial Instruments*, representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Organization's management have yet to assess the impact of this new standard on the Organization's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Organization initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the Organization shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 484.10 drams for 1 US dollar and 580.10 drams for 1 euro as of 31 December 2017 (31 December 2016: 483.94 drams for 1 US dollar, 512.20 drams for 1 euro).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property and equipment

As of reporting date buildings and land are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Any revaluation increase arising on the revaluation of such property and equipment is recognized in other comprehensive result and is shown as revaluation reserve in net assets. A decrease in the carrying amount arising on the revaluation of such property and equipment is charged to the result to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated result.

Other items of property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs.

Properties in the course of construction for operating purposes are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs and professional fees.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the result.

Subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the result for the year as incurred.

Depreciation is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings and constructions	-	50 years
Furniture, machines and equipment	-	5-10 years
Computers and accessories	-	3 years
Other	-	5-10 years.

3.3 Intangible assets

Intangible assets, which are acquired by the Organization and which include computer software, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the result for the year on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years.

3.4 Inventories

Inventories, which mainly consist of food and clothes to be delivered to beneficiaries, are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.5 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Organization becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets other than hedging instruments are divided into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income. Refer to note 16.2 for a summary of the Organization's financial assets by category.

Generally, the Organization recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognised in the result are presented within finance costs, finance income or other financial items.

Cash and bank balances

The Organization’s cash and bank balances comprise cash in hand, bank accounts and cash in transit.

Classification and subsequent measurement of financial liabilities

The Organization's financial liabilities include accounts payable. A summary of the Organization's financial liabilities by category is given in note 16.2.

i Accounts payable

Accounts payable are stated at fair value and subsequently stated at amortized cost.

3.6 Grants

Grants are not recognized until there is reasonable assurance that the Organization will comply with the conditions attaching to them and the grants will be received.

Grants with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Organization with no future related costs are recognized in profit or loss in the period in which they become receivable.

The grant of land recognized in result over the useful life of the building is located on that plot of land.

3.7 Income tax

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other

than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3.8 Income recognition

Income of the Organization arises from the use of donations received and investments of free funds.

Income from donations

This income is recognized when there is a reasonable assurance that the donation will be received or when the donation is factually received. This income is included in “Income from operations” caption.

3.9 Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Organization classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

4 Property and equipment

In thousand drams	Land, buildings and constructions	Furniture, machines and equipment	Computer equipment and other	Construction in progress	Total
Cost or revalued amount					
as of 1 January 2016	777,300	56,532	16,824	6,264	856,920
Additions	-	849	761	-	1,610
Disposals	-	(4,303)	(603)	-	(4,906)
Internal movement	6,264	-	-	(6,264)	-
as of 31 December 2016	783,564	53,078	16,982	-	853,624
Additions	-	3,671	2,909	-	6,580
Internal movement	-	12	(12)	-	-
as of 31 December 2017	783,564	56,761	19,879	-	860,204
Accumulated depreciation					
as of 1 January 2016	37,842	43,553	6,600	-	87,995
Charge for the year	10,801	4,948	3,443	-	19,192
Eliminated on disposal	-	(4,303)	(603)	-	(4,906)
as of 31 December 2016	48,643	44,198	9,440	-	102,281
Charge for the year	10,828	4,536	3,633	-	18,997
Internal movement	-	(108)	108	-	-
as of 31 December 2017	59,471	48,626	13,181	-	121,278
Carrying amount					
as of 31 December 2016	734,921	8,880	7,542	-	751,343
as of 31 December 2017	724,093	8,135	6,698	-	738,926

As of 31 December 2017 property and equipment with a cost of drams 40,806 thousand (as of 31 December 2016: drams 28,827 thousand) are fully depreciated.

During the reporting year the depreciation expense of drams 18,997 thousand (2016: drams 19,192 thousand) has been allocated to the administration expenses at the amount of drams 542 thousand (2016: drams 542 thousand) and to the operating expenses at the amount of drams 18,455 thousand (2016: drams 18,650 thousand).

The land and building of the Organization were last revalued by independent valuers as of 1 July 2011. Estimation is conducted based on recent transactions made in the market (arm's length) clause. The revaluation surplus, less the respective deferred taxes, was credited to the revaluation reserve, in net assets.

The fair value of the building was determined based on the weighted average market value.

The fair value of the land was determined based on cost method.

If the land and building were stated at historical cost, their carrying amounts would have been drams 510,169 thousand (as of 31 December 2016: drams 520,610 thousand).

5 Cash and bank balances

In thousand drams	As of 31 December 2017	As of 31 December 2016
Cash in hand	461	1,336
Bank accounts	61,536	126,652
	61,997	127,988

6 Grants related to assets

In thousand drams	2017	2016
Balance at the beginning of the year	540,915	558,926
Additions to grants related to assets (refer to note 4)	6,591	1610
Recognized in income (refer to note 10)	(19,409)	(19,621)
Balance at the end of the year	528,097	540,915

7 Deferred taxes

In thousand drams	2017	2016
Balance at the beginning of the year	41,016	41,149
Credited to the statement of activities (refer to note 14)	(133)	(133)
Balance at the end of the year	40,883	41,016

The amounts credited to the statement of activities refer to the revaluation of land and buildings.

8 Deferred income

In thousand drams	2017	2016
Balance at the beginning of the year	29,880	42,568
Additions to deferred income	111,954	149,589
Transfer to grants related to assets	(6,036)	(1,610)
Recognized to income (refer to note 10)	(104,024)	(160,667)
Balance at the end of the year	31,774	29,880

During 2017 funds of drams 6,036 thousand were transferred for the acquisition of property and equipment (2016: drams 1,610 thousand).

During 2017 the Organization received donations in cash at the amount of drams 110,780 thousand (2016: drams 146,761 thousand), in kind donations at the amount of drams 1,174 thousand (2016: drams 2,828 thousand).

Additions to deferred income are presented in the table below:

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Krikorian Charitable Trust	20,793	37,728
K-Telekom CJSC	-	50,150
HSBC Bank Armenia CJSC	22,159	27,399
Bridge of Hope	8,392	7,770
Inecobank CJSC	-	3,330
US State Department Federal Assistance Award	4,235	-
Strong Organizations for Civil Society in Strong Armenia	16,817	-
Polina Kudryavko	9,480	-
Daniel Aghazaryan	4,848	-
Coca-Cola Hellenic Armenia	2,927	-
Other	22,303	23,212
	111,954	149,589

9 Net assets

The revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to those assets, and is effectively realized, is transferred directly to accumulated result.

10 Income from operations

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Income from grants related to assets (refer to note 6)	19,409	19,621
Income from donations (refer to note 8)	104,024	160,667
	123,433	180,288

11 Operating expenses

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Employee benefits	57,560	51,764
Food expenses	16,480	14,892
Donation expenses	12,693	7,673
Sub-grant expenses	6,375	-
Depreciation expenses	18,455	18,650
Office and utility expenses	8,861	8,541
Transportation expenses	11,364	8,801
Service contracts and supplies for trainings	16,147	-
Repair and maintenance expenses	4,837	1,218
Other	21,873	16,449
	174,645	127,988

12 Administrative expenses

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Employee benefits	5,146	6,134
Depreciation expenses	542	542
Audit and consulting expenses	1,500	1,500
Other	9,657	9,570
	16,845	17,746

13 Other financial items

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Gain from exchange differences on:		
Cash and bank balances	139	279
	139	279

14 Income tax expense

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Current tax	190	1,008
Deferred tax (refer to note 7)	(133)	(133)
	57	875

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2017	Effective tax rate (%)	Year ended 31 December 2016	Effective tax rate (%)
Result before taxation (under IFRSs)	(61,196)		39,869	
Tax calculated at a tax rate of 20% (2016: 20%)	(12,239)	20.0	7,974	20%
(Non-taxable)/non-deductible items, net	12,296	(20.1)	(7,099)	(17.81)
Income tax expense/ (recovery)	57	(0.1)	875	2.2

15 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

15.1 Critical accounting estimates

The Organization makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property and equipment

The estimation of the useful lives of items of property and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Organization. The following primary factors are considered:

- expected usage of the assets;
- expected physical wear and tear, which depends on operational factors and maintenance programme;
- technical or commercial obsolescence arising from changes in market conditions.

If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

16 Financial instruments

16.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.5.

16.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand drams	As of 31 December 2017	As of 31 December 2016
Loans and receivables:		
Cash and bank balances	61,997	127,988
	61,997	127,988

Financial liabilities

In thousand drams	As of 31 December 2017	As of 31 December 2016
Financial liabilities measured at amortized cost:		
Accounts payable	4,367	4,609
	4,367	4,609

17 Financial risk management

Financial risk factors

a) Market risk

The Organization is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks [customize], which result from both its operating and investing activities.

Foreign currency risk

Part of the Organization's unused funds is denominated in US dollars. Hence, exposures to exchange rate fluctuations arise.

Balances in foreign currency are related to cash and bank balances, which as of 31 December 2017 amounted to drams 57,860 thousand (2016: drams 58,256 thousand).

5% increase/decrease in foreign currency rates would entail profit/loss at drams 2,893 thousand (2016: drams 5,826 thousand).

The 5% (2016: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2016: 10%) change in foreign currency rates.

Exposures to foreign exchange rates vary during the year depending on the volume of donations in foreign currency. Nonetheless, the analysis above is considered to be representative of the Organization's exposure to currency risk.

18 Fair value measurement

The Organization provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18.1 Fair value measurement of non-financial assets

The land and buildings of the Organization are stated at revalued amount. The estimated fair values of the land and buildings are categorized within Level 3 of the fair value hierarchy. The fair values of those assets are estimated based on appraisals performed by independent, professionally-qualified property valuers who hold necessary licenses. The significant inputs and assumptions are developed in close consultation with management. Further information is set out below.

Land held for administrative purposes (Level 2)

The appraisal was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and purpose of use. The land was revalued on 1 July 2011.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is subjective judgment, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

Buildings (Level 2)

The fair value of the building was determined by independent real estate valuation experts using recognized valuation techniques on 1 July 2011. The appraisal was carried out using an income approach, cost approach and market comparison approach that reflects observed prices for recent market transactions for similar properties. After taking into account advantages and disadvantages of three methods used, the valuator determined the final result using specific weight approach on each method. The total weight of market value applied is 100%. The specific weight is allocated as follows:

Valuation method	Fair value (in thousand drams)	Specific rate (%)	Specific value (in thousand drams)
Comparison	382,800	50	191,400
Cost	356,300	20	71,260
Income	438,700	30	131,610
Total			394,270

19 Contingencies

19.1 Business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Deterioration of economic situation of countries collaborating with the Republic of Armenia led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Organization. However, as the number of variables and assumptions involved in these uncertainties is big, management

cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Organization may be affected.

Management of the Organization believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Organization.

19.2 Taxes

The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

20 Related parties

20.1 Transactions with related parties

Key management received the following remuneration during the year, which is included in payroll and employee benefits.

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and bonuses	2,334	2,408