TELECOM Armenia CJSC

International Financial Reporting Standards Financial Statements and Independent Auditor’s Report

31 December 2022

Contents

Independent Auditor's report

Financial Statements

Notes to the Financial Statements

Independent Auditor's Report

To the Board of Directors and Shareholders of Telecom Armenia CJSC:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Telecom Armenia CJSC (the "Company") as at 31 December 2022, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers Armenia LLC
2 Vazgen Sargsyan street, KAMAR Business Center, 8th floor, Yerevan 0010, Armenia
T: (+374 10) 51 21 51, F: (+ 374 10) 52 10 00, www.pwc.com/am

Other information

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises Prospectus for initial public offering (IPO) but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Nino Kadagishvili

Director

PricewaterhouseCoopers Armenia, LLC

Yerevan, Republic of Armenia

16 May 2023

In thousands of Armenian Drams	Note	31 December 2022	31 December 2021 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	7	21,578,740	18,143,705
Investment property	8	5,927,067	-
Intangible assets	9	4,285,274	3,918,357
Prepayments for indefeasible right-of-use (IRU)	9	211,591	303,932
Leasehold improvements	10	1,196,571	1,304,285
Right-of-use assets	18	3,507,709	3,471,418
Prepayments for non-current assets	7	986,708	944,774
Loans issued	11	17,249,248	10,955,362
Deferred income tax assets	30	2,700,097	4,249,652
Deferred expenses		30,166	31,135
Other non-current assets	13	2,018,779	64,578
Total non-current assets		**59,691,950**	**43,387,198**
Current assets			
Inventories	12	608,905	431,493
Trade and other receivables	13	8,203,651	5,710,491
Current income tax prepayments	30	269,728	248,075
Other taxes receivable		69,573	62,900
Deferred expenses		45,608	91,956
Term deposit	14	823,885	-
Cash and cash equivalents	15	615,800	1,467,060
Non-current assets held for sale		60,070	-
Total current assets		**10,697,220**	**8,011,975**
TOTAL ASSETS		**70,389,170**	**51,399,173**
EQUITY			
Share capital	16	18,837,709	18,837,709
Retained earnings		9,672,304	2,195,699
Reserve capital		2,825,656	2,825,656
TOTAL EQUITY		**31,335,669**	**23,859,064**
LIABILITIES			
Non-current liabilities			
Bank loans	17	17,465,550	8,036,392
Lease liabilities	18	3,166,781	3,100,899
Provisions for asset retirement obligations	20	1,405,246	1,436,526
Deferred income		28,277	32,031
Total non-current liabilities		**22,065,854**	**12,605,848**
Current liabilities			
Bank loans	17	868,767	628,504
Lease liabilities	18	1,067,167	1,373,865
Financial guarantees provided	33	-	1,907,669
Trade and other financial payables	21	8,523,257	6,779,993
Provisions for liabilities and charges	22	413,508	187,197
Deferred income		30,038	33,383
Payables to staff		981,842	697,133
Advances received	21	4,673,871	2,857,931
Other taxes payable		429,197	468,586
Total current liabilities		**16,987,647**	**14,934,261**
TOTAL LIABILITIES		**39,053,501**	**27,540,109**
TOTAL LIABILITIES AND EQUITY		**70,389,170**	**51,399,173**

Approved for issue and signed on 16 May 2023

Hayk Yesayan General Director	Karen Mnatsakanyan Financial Director	Tatevik Gevorgyan Chief Accountant

The accompanying notes on pages 5 to 49 are an integral part of these financial statements.

In thousands of Armenian Drams	Note	2022	2021
Revenue from mobile communication services	23	16,112,680	15,526,846
Revenue from fixed communication services	23	14,670,395	13,697,593
Revenue from sale of equipment	23	3,063,207	2,349,969
Other revenue	23	730,396	136,106
Total revenues		**34,576,678**	**31,710,514**
Cost of services provided	24	(19,722,491)	(19,340,835)
Cost of equipment sold	24	(2,907,845)	(2,246,296)
Total cost of sales		**(22,630,336)**	**(21,587,131)**
Gross profit		**11,946,342**	**10,123,383**
Net gain from fair value adjustment on investment property	8	5,427,831	-
Other operating income	25	2,002,531	1,656,575
General and administrative expenses	26	(4,232,133)	(3,486,129)
Distribution expenses	27	(3,287,590)	(3,059,925)
Other operating expenses	28	(1,099,780)	(505,939)
Net impairment (reversals)/losses on financial assets		(122,265)	55,764
Operating profit		**10,634,936**	**4,783,729**
Finance income	29	1,855,985	1,524,306
Finance costs	29	(1,540,089)	(1,220,974)
Foreign exchange losses less gains		(460,410)	(625,059)
Profit before income tax		**10,490,422**	**4,462,002**
Income tax expense	30	(1,813,122)	(993,105)
PROFIT FOR THE YEAR		**8,677,300**	**3,468,897**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,677,300**	**3,468,897**
Basic and diluted earnings per ordinary share (expressed in AMD per share)	31	**46.06**	**18.41**

In thousands of Armenian Drams	Note	Share capital	Retained earnings	Reserve Capital	Total
Balance at 1 January 2021		**18,837,709**	**512,847**	**2,825,656**	**22,176,212**
Profit for 2021		-	3,468,897	-	3,468,897
Total comprehensive income for 2021		**-**	**3,468,897**	**-**	**3,468,897**
Effect of recognizing the loans issued during 2021 to the parent company at fair value	11	-	(2,292,170)	-	(2,292,170)
Deferred tax effect on transactions reflected in equity	30	-	506,125	-	506,125
Balance at 31 December 2021		**18,837,709**	**2,195,699**	**2,825,656**	**23,859,064**
Profit for 2022		-	8,677,300	-	8,677,300
Total comprehensive income for 2022		**-**	**8,677,300**	-	**8,677,300**
Effect of recognizing the receivables during 2022 from the parent company at fair value	13	**-**	(889,764)	-	(889,764)
Effect of recognizing the loans issued during 2022 to the parent company at fair value	11	-	(2,121,269)	-	(2,121,269)
Derecognition of financial guarantee	33		1,546,770	-	1,546,770
Deferred tax effect on transactions recognised in equity	30	-	263,567	-	263,567
Balance at 31 December 2022		**18,837,709**	**9,672,304**	**2,825,656**	**31,335,669**

In thousands of Armenian Drams	Note	2022	2021 (restated)
Cash flows from operating activities			
Cash received from customers		34,286,800	31,991,573
Interest received		44,125	4,393
Interest paid		(1,472,218)	(796,952)
Cash proceeds from rent		896,726	-
Cash proceeds from other operating activities		940,651	2,112,781
Cash paid to service providers		(10,831,434)	(8,077,090)
Cash paid to staff		(7,405,889)	(7,324,398)
Income taxes paid		(21,653)	-
Taxes other than on income tax paid		(4,501,253)	(3,704,099)
Cash paid to inventory suppliers		(3,694,049)	(4,306,355)
Cash paid for business trips		(52,447)	(49,259)
Cash (paid for) / from other operating activities		(7,790)	1,441
Net cash from operating activities		**8,181,569**	**9,852,035**
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		(10,225,279)	(6,788,991)
Proceeds from the sale of property, plant and equipment		1,874,723	1,957,683
Loans issued – repayments received	11	297,697	478,303
Loans issued to the parent company	11	(10,357,819)	(7,537,928)
Placement of bank deposits		(822,000)	-
Net cash used in investing activities		**(19,232,678)**	**(11,890,933)**
Cash flows from financing activities			
Proceeds from loans	19	20,524,762	7,058,409
Repayments of loans	19	(8,786,288)	(2,876,674)
Lease principal repayments		(1,387,683)	(881,304)
Net cash used in financing activities		**10,350,791**	**3,300,431**
Effect of exchange rate changes on cash and cash equivalents		(150,942)	(9,999)
Net change in cash and cash equivalents		**(851,260)**	**1,251,534**
Cash and cash equivalents at the beginning of the year	**15**	**1,467,060**	**215,526**
Cash and cash equivalents at the end of the year	**15**	**615,800**	**1,467,060**

1 TELECOM Armenia CJSC and its Operations

These financial statements have been prepared for the year ended 31 December 2022 for TELECOM Armenia CJSC (the "Company").

The Company was incorporated and is domiciled in the Republic of Armenia. The Company is a closed joint stock company limited by shares and was set up in accordance with regulations of the Republic of Armenia.

The Company was originally established in 1995 as ArmenTel, a majority state owned enterprise with a decree to be the first and sole provider of integrated telecommunications services in the Republic of Armenia. In 2006, ArmenTel has become a wholly owned subsidiary of the international telecommunications company, VEON Ltd. (former VimpelCom Ltd, rebranded as VEON in 2017), renounced all its legal monopoly rights to service provision and fully integrated into its Beeline brand by 2008, beginning to operate as Beeline Armenia. In 2020, VEON divested out of Beeline Armenia, selling its entire stake to Team LLC. On 28 October 2020, 100% of the Company's shares were sold to TEAM LLC, which is a legal entity registered in the Republic of Armenia. On 16 November 2020 VEON Armenia CJSC was renamed to TELECOM Armenia CJSC. On 30 December 2021 TEAM LLC was reorganized to TEAM CJSC.

As of 31 December 2022 and 2021, the Company's immediate parent company was TEAM CJSC and the Company was ultimately controlled by brothers Hayk and Aleksander Yesayan.

Principal activity. The Company earns revenues by providing telecommunication services through a range of mobile and fixed-line technologies and selling customer equipment. As of 31 December 2021, the Company operated telecommunications services in Armenia primarily under the "Beeline" brand name. The Company has officially completed its rebranding process in May 2022 replacing "Beeline" brand name with "Team" brand.
Under the regulations, the Company is governed by the General Meeting of Shareholders, the Board of Directors and the Chief Executive Body of the Company represented by the General Director.

Registered address and place of business. The Company's registered address is #24/1 Azatutyan avenue, Yerevan 0014, Republic of Armenia. The Company's principal place of business is the territory of the Republic of Armenia.

2 Operating Environment of the Company

The Republic of Armenia displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations, refer to Note 32. The economic environment of the Republic of Armenia is significantly influenced by the level of business activity in the Russian Federation and significant cash movements flow from the Russian Federation to the Republic of Armenia. Therefore, a decline in business activity, stock market volatility and other risks experienced in the Russian Federation could have a flow-on negative effect on the financial and corporate sectors of the Republic of Armenia.

COVID-19. In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Republic of Armenia authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. Most of those measures were subsequently relaxed, however, as of 31 December 2022, there remains a risk.

In 2022 the Armenian economy demonstrated positive dynamics. This trend was also supported by the global economic recovery and higher prices on global commodity markets. However, higher prices on certain markets in Armenia and globally also contribute to the inflation in Armenia.

The future effects of the current economic situation and the measures taken by the Government are difficult to predict and management's current expectations and estimates could differ from actual results.

2 Operating Environment of the Company (Continued)

War between Russia and Ukraine.

In general, the war is expected to have a pervasive impact on the global economy e.g., via growing commodity prices, potential shortages of oil/ gas/ coal, business disruptions etc. In the beginning of the war, the Company relied on components including network equipment and satellite connections and services sourced from countries involved in the conflict. Supply chains were disrupted, and the Company faced operational challenges especially in mobile equipment sector. In the middle of 2022, the Company has negotiated alternative logistic solutions. From roaming prospective the war has no material effect on agreements and partnerships between Armenian telecommunication providers and their counterparties in Russia, Ukraine, or other countries involved. The telecommunication sector is reliant on a stable and conducive business environment for investment and development. If the war causes regional instability, it may deter foreign investment and slow down the progress of infrastructure expansion, technological upgrades, and the introduction of new services in Armenia.

The long-term effects of the current economic situation are difficult to predict, and management's current expectations and estimates could differ from the actual result.

Expected credit losses. For measurement of expected credit losses ("ECL") on the Company's loans, receivables, and similar assets the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 34 provides more information of how the Company incorporated forward-looking information in the ECL models.

3 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of investment properties, financial instruments categorised at fair value through profit or loss ("FVTPL"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Restatement of comparative information

Restatement of cash outflows from loans issued to the parent company from financing activities to investing activities in the Cash Flow Statement. In 2021 the Company presented cash transactions associated with loans issued to the parent company in financing activities of cash flow statement. The management of the Company has analysed nature of these transactions and it was decided that presentation of those cash flows within the investing activities of the cash flow statement reflect their substance more appropriate.

As a result, cash paid as loan to parent company were transferred to investing activities section of the cash flow statement.

in thousands of Armenian Drams	**2021, as originally presented**	**Effect of restatement**	**2021 as restated**
Investing Activities			
Loans issued to the parent company	-	(7,537,928)	(7,537,928)
Financing Activities			
Loans issued to the parent company	(7,537,928)	7,537,928	-

3 Significant Accounting Policies (Continued)

Change in the classification of liability from financial guarantees. In 2021 the Company presented financial guarantees separated between current and non-current. The management of the Company has analysed nature of these financial guarantees more precisely and it was investigated that loans guaranteed in case of Parent's payment failure are required to be repaid on demand and, therefore, they should be presented as current liabilities.

As a result, non-current part of financial guarantees was transferred to current liabilities section of the statement of financial position.

in thousands of Armenian Drams	**31 December 2021 (As originally presented)**	**Effect of restatement**	**31 December 2021 (As restated)**
Non-current liabilities			
Financial guarantees provided	1,517,155	(1,517,155)	-
Current liabilities			
Financial guarantees provided	390,514	1,517,155	1,907,669

Going concern. Management prepared these financial statements on a going concern basis. In making this judgment management considered the Company's financial position, current intentions, profitability of operations and access to financial resources. The Company had an excess of current liabilities over its current assets of AMD 6,290,427 thousand as of 31 December 2022 (31 December 2021: AMD 6,922,286 thousand). Cash-flow forecast for the next 12 months shows that the Company will be able to fulfil its payment obligations at their maturities and net operating cashflows are exected to be sufficient to cover the short term liquidity needs. The Company is in regular process of negotiations with suppliers to get better payment terms. These circumstances, along with other factors, allow management to confirm that the Company will continue as a going concern for at least 12 months after the reporting date and perform its financial obligations.

Foreign currency translation. The functional and presentation currency of the Company is the national currency of the Republic of Armenia, Armenian Dram ("AMD").
Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of the Republic of Armenia (the "CBA") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into entity's functional currency at year-end official exchange rates of the CBA are recognised in profit or loss. The foreign exchange effects from operating activity are separated and presented in Other operating income and Other operating expenses (Notes 25, 28), foreign exchange effects on the borrowings is recognised directly in the statement of profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss. At 31 December 2022, the principal rate of exchange used for translating foreign currency balances was USD 1 = AMD 393.57, EUR 1 = AMD 420.06, RUB 1 = AMD 5.59, (2021: USD 1 = AMD 480.14, EUR 1 = AMD 542.61, RUB 1 = AMD 6.42).

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Property, plant and equipment includes assets under construction for future use as property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or expenses.

3 Significant Accounting Policies (Continued)

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	20
Transmitting devices	20
Plant and equipment	6-10
Vehicles	5
Fixture and fittings	10
Other	6-10

The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property held by the Company to earn rental income or for capital appreciation, or both and which is not occupied by the Company. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

In the absence of current prices in an active market, the Company considers information from a variety of sources, including:

a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Market value of the Company's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category.

Investment property that is being developed or redeveloped for use as investment property is also measured at fair value.

Earned rental income is recorded in profit or loss for the year within Revenue. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes. If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation of property, plant and equipment. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income.

3 Significant Accounting Policies (Continued)

Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year as impairment.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Computer Software	9.5
Licences	Over the term of the licence, but not more than 10
Other intangible assets	9.5

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Prepayments under Indefeasible Right of Use ("IRU") contracts.The Company's prepayments under IRU contracts are prepayments under contracts for a certain transmission capacity portion of the cable. The Company's share does not represent substantially all of the capacity of the network or any component part. The Company does not obtain the right to use any identified network assets instead, it is entitled to certain share of planned capacity. The contracts are signed for 3 and 15 years.

Leasehold improvements. Leasehold improvements are costs of improvements capitalised on the leased assets. These are depreciated over the shorter of useful life and the term of the underlying lease.

Impairment of non-financial assets. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). The Company identify whole entity as a one CGU. When determining fair value the Company uses a discounted cash flow model, using cash flow projections from business plans prepared by management. Key assumptions used in determination of recoverable amount of asset are presented in Note 4.

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

3 Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses *("ECL")*. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at fair value through profit or loss ("FVTPL") are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an expected credit loss ("ECL") allowance is recognised for financial assets measured at amortised cost ("AC") , resulting in an immediate accounting loss.

Financial assets – classification and subsequent measurement – measurement categories. The Company's financial assets relate to the only measurement category – amortized cost (AC). The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

3 Significant Accounting Policies (Continued)

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a Company of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification*.* Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and for the exposures arising from financial guarantee contracts. The Company measures ECL and recognises net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Trade and other receivables and loans issued are presented in the statement of financial position net of the allowance for ECL. For financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position.

The Company applies the simplified approach (i.e. provision matrix) for calculating a lifetime ECL for its trade and other receivables, including unbilled receivables. The provision matrix is based on the historical credit loss experience over the life of the trade receivables and is adjusted for forward-looking estimates. Forward looking estimates include macro-economic factors such as GDP and unemployment rates of Armenia. The company does not apply such forward-looking adjustment to its default rates to the extent that these macro-economic factors remain uncorrelated to the historical loss rates. The provision matrix is reviewed on a quarterly basis.

For other financial assets, the Company applies a significant increase in the credit risk model. Impairment losses are presented in the other operating expenses line item in the statement of profit or loss.

Where fines, penalties and interest for the accounts receivable are accrued, impairment loss provision includes these as well. ECL rates for the provision matrix are revised quarterly based on the collectability of the accounts receivable and forward-looking information.

3 Significant Accounting Policies (Continued)

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised, and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The main indicator that there is no reasonable expectation of recovery is expiry of limitation period. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for financial guarantee contracts.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Term Deposits. Term Deposits are carried at AC using the effective interest method.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

Right-of-use assets. The Company leases various offices, land and buildings used as sites for the telecom equipment. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

3 Significant Accounting Policies (Continued)

Right-of-use assets are measured at cost comprising the following:

the amount of the initial measurement of lease liability,
any lease payments made at or before the commencement date less any lease incentives received,
any initial direct costs, and
costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

Right-of-use asset	Useful lives in years
Land	8
Buildings, offices and shops	3 - 8

Lease liabilities. Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

fixed payments (including in-substance fixed payments), less any lease incentives receivable,
variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Extension and termination options are included in a number of leases across the Company. These terms are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Company:

where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
makes adjustments specific to the lease, e.g. term, country, currency and collateral.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

3 Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions, other than interest and fines, are recorded within the income tax charge. Adjustments for uncertain income tax positions in respect of interest and fines are recorded within finance expenses and other gains/(losses), net, respectively.

Value added tax. Output value added tax related to sales is payable to tax authorities on delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first in, first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the costs to sell.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset, which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written-off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Reserve capital. Reserve capital in equity are represented by non-distributable reserve created in accordance with the Law of the Republic of Armenia on Joint Stock Companies. The reserve is intended to cover losses, redemption of issued securities and re-purchase of the issued shares, in case the profits and other funds are not sufficient. The reserve fund should not be less than 15% of the share capital.

3 Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Asset retirement obligations. Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of the item either when an item is acquired or as the item is used during a particular period. When there are changes in the measurement of an existing asset retirement obligation due to changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or from changes in the discount rate, the cost of the related asset is adjusted if the related asset is measured using the cost model.

Financial guarantees. Financial guarantees require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Employee benefits. Wages, salaries, paid annual leave and sick leave and bonuses, are accrued in the year in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Revenue recognition. The Company generates revenue from providing voice, data and other telecommunication services through a range of wireless, fixed and broadband Internet services, as well as selling equipment and accessories. Products and services may be sold separately or in bundled packages. When the outcome of a contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Service Revenue. Service revenue includes revenue from airtime charges from contract and within the terms of prepaid system agreements, in accordance with subscription agreements, monthly subscription fees, interconnection services fees, as well as roaming and additional services charges. Additional services include short messages (SMS), multimedia messaging (MMS), caller ID, call maintenance, data exchange, mobile Internet, downloadable content and other services. Revenue from additional content services is recognised after exclusion of appropriate expenses, when the Company is an agent for content providers with or without corresponding costs, when the Company is the main holder of deal liabilities.

Interconnect revenue is generated when the Company receives traffic from mobile or fixed subscribers of other operators and that traffic terminates on Company's network. Roaming revenues include both revenues from Company's customers who roam outside of their home country network and revenues from other wireless carriers for roaming by their customers on Company's network. For both revenue streams the company has a single performance obligation and recognises mobile usage and roaming service revenues based on minutes of traffic processed when the services are rendered over the time. Revenues due from foreign carriers for international roaming calls are recognised in the period in which the call occurs.

3 Significant Accounting Policies (Continued)

Revenue for services with a fixed-term, including fixed-term tariff plans and monthly subscriptions, is generally recognized over time, on a straight-line basis. For pay-as-you-use plans, in which the customer is charged based on actual usage, revenue is recognized over time, on a usage basis. Some tariff plans allow customers to rollover unused services to the next period. For these tariff plans, revenue is generally recognized over time, on a usage basis. For contracts which include multiple service components (such as voice, text, data), revenue is allocated based on stand-alone selling price. The stand-alone selling price for these services is determined with reference the price charged per service under a pay-as-you-use plan to similar customers.

Upfront fees, including activation or connection fees, are recognized as deferred income on a straight-line basis over the contract term. For contracts with an indefinite term (generally prepaid contracts), revenue from upfront fees is recognized over the average customer life.

Revenue from other operators, including interconnect and roaming charges, is recognized based on the price specified in the contract, net of any estimated retrospective volume discounts. Accumulated experience is used to estimate and provide for the discounts.

All service revenue is recognized over time.

Sale of equipment and accessories. Equipment and accessories are usually sold to customers on a stand-alone basis or together with service bundles. Where sold together with service bundles, revenue is allocated pro-rata, based on the stand-alone selling price of the equipment and the service bundle.

Revenue for mobile handsets and accessories is recognized when the equipment is sold to a network customer, or, if sold via an intermediary, when the intermediary has taken control of the device and the intermediary has no remaining right of return. Revenue for fixed-line equipment is not recognized until installation and testing of such equipment are completed and the equipment is accepted by the customer.

All revenue from sale of equipment and accessories is recognized at a point in time.

Contract balances. Receivables and contracts assets mostly relate to amounts due from payment agents, other operators and post-paid customers.

Contract liabilities relate primarily to non-refundable cash received from prepaid customers for fixed-term tariff plans or pay-as-you-use tariff plans.

Contract liabilities are presented as "Deferred income" and "Advances received" in the statement of financial position. All "deferred income" amounts outstanding at the beginning of the year have been recognized as revenue during the year.

Sales of prepaid cards, used as a method of cash collection, is accounted for as customer advances for future services and the respective revenue is deferred until the customer uses the airtime. Prepaid cards might not have expiration dates but are subject to statutory expiration periods, and unused prepaid balances are added to service revenue based on an estimate of the expected balance that will expire unused.

Customer acquisition costs. Certain incremental costs incurred in acquiring a contract with a customer ("customer acquisition costs"), are recognised in the statement of financial position within deferred expenses.
Such costs generally relate to commissions paid to third-party dealers and own staff and are amortized on a straight-line basis over the average customer life. The Company applies the practical expedient available for customer acquisition costs for which the amortization would have been shorter than 12 months. Such costs relate primarily to commissions paid to third-party dealers upon top-up of prepaid credit by customers and sale of top-up cards.

Average customer life. The average customer life is calculated based on historical data, specifically churn rates for different customer segments (such as mobile and fixed line, prepaid and post-paid).

Amendment of the financial statements after issue. Any changes to these financial statements after issue require approval of the Company's management who authorised these financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Tax, currency and customs legislation of the Republic of Armenia is subject to varying interpretations. Refer to Note 32.

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 38. Effect of discounting of loans issued and long-term receivables is recognised in retained earnings and treated as non-cash capital distribution provided to the parent entity. Any further loans issued to the parent should be accounted as financial asset, provided there is contractual right to receive cash with clear maturity and the loans are issued at market level interest rates. All of those loans are subject to ECL assessment under IFRS 9. Financial guarantees provided to the parent were recognised as liabilities with the corresponding amount debited to retained earnings. Derecognition of financial guarantees was recognised as credit to retained earnings. Management applied judgement and treated those financial guarantees as equity distibutions and contributions respectively based on the substance of these trasactions.

ECL measurement. Measurement of ECLs of the loans issued is a significant estimate that involves determination methodology, models and data inputs. The following components have a major impact on credit loss allowance of the loans issued: amount of expected cash-flows and probability of default. If the free cash-flows in the forecasted period (2023-2030) (2021: 2022-2026) will be lower by 10% (2021:10%), the ECL on the loans issued will be higher by AMD 44,863 thousand (2021: AMD 406,300 thousand). If the probability of default will be higher by 10% (2021:10%), the ECL on the loans issued will be higher by AMD 243,436 thousand (2021: AMD 140,422 thousand).

Valuation of investment properties. Investment property is stated at its fair value (stage 3) based on reports prepared by a valuation company at the end of the reporting period.

The valuation of these properties was based principally on discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

In preparing the valuation reports on the Company's investment property, the external appraisers excluded distressed sales when considering comparable sales prices. Management has reviewed the appraisers' assumptions underlying the discounted cash flow models used in the valuation, and confirmed that factors such as the discount rate applied have been appropriately determined considering the market conditions at the end of the reporting period. Notwithstanding the above, management considers that the valuation of its investment properties is currently subject to an increased degree of judgement and an increased likelihood that actual proceeds on a sale may differ from the carrying value.

The principal assumptions underlying the estimation of the fair value are those relating to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Company, and those reported by the market.

The principal assumptions made and the impact on the aggregate valuations of reasonably possible changes in these assumptions, with all other variables held constant, are as follows:

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

The discount rate was assumed to be 11.37% (2021: nil). Should this discount rate increase / decrease by 50 basis points (2021: nil), the carrying value of the investment property would be AMD 89,252 thousand lower / AMD 91,169 thousand higher (2021: nil).

Impairment of property plant and equipment and intangible assets. As of 31 December 2022 the Company's management has not identified any indicators of impairment to property, plant and equipment, intangible assets and right-of-use assets. The management deems the Company as one cash generating unit (the "CGU").

Useful lives of property, plant and equipment, and intangible assets, and their revision. During 2021 the Company revised useful lives for some types of Property, Plant and Equipment and Intangible Assets. Useful lives for cable network was increased from 6 to 20 years and useful lives for mobile telecommunication equipment were increased from 7 years to 9.5 years to reflect the factual pattern of its usage based on lookback analysis performed by the management. Useful lives of intangible assets used with the mobile telecommunication equipment was also increased from 4 to 9.5 years to match the useful lives of the equipment, to which those relate.

Revision of the useful lives of the property, plant and equipment and intangible assets resulted in decrease of depreciation and amortization for the year ended 31 December 2021 by AMD 1,255,368 thousand and AMD 1,345,416 thousand correspondingly.

Were the estimated useful lives of property, plant and equipment to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2022 would be to increase or decrease it by AMD 480,649 thousand (2021: AMD 323,570 thousand).

Were the estimated useful lives of intangible assets to differ by 10% from management's estimates, the impact on amortisation for the year ended 31 December 2022 would be to increase or decrease it by AMD 82,911 thousand (2021: AMD 69,818 thousand).

Were the estimated useful lives of leasehold improvements to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2022 would be to increase or decrease it by AMD 30,937 thousand (2021: AMD 23,648 thousand).

Were the estimated useful lives of right-of-use assets to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2022 would be to increase or decrease it by AMD 114,661 thousand (2021: AMD 119,598 thousand).

Segment reporting. The main activity of the Company is providing telecommunication services through a range of mobile and fixed-line technologies. Other activities include selling customer equipment, etc. and are inseparably connected with the main activity of the Company.
The Board of Directors (the "Management") of the Company is the "chief operating decision maker". Management assesses financial performance based on the key performance indicators of the whole Company. Management of the Company regularly reviews the operating results of the whole Company based on financial information prepared according to IFRS and makes decisions about resources to be allocated to business activities and assesses the Company's performance. Additionally, the means of controlling and assessing operating managers is carried out at the Company level. Their remuneration depends on the Company's key performance indicators being fulfilled.

As a result, the Company management views the whole Company as one operating segment.

5 Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2022:

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The application of the amendments had no significant impact on the Company's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Company has not early adopted.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Company is currently recognising deferred tax on transactions from leases and decommissioning obligations on its financial statements. The Company did not identify material impact of this amendment.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2024). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Company did not identify material impact of this amendment.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Company does not expect that the impact of new pronouncement will be material.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
The Company did not identify material impact of this amendment.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Company did not identify material impact of this amendment.
Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Armenian Drams	Land	Buildings and structures	Transmitting devices	Plant and equipment	Vehicles	Fixtures and fittings	Other	Construction in progress	Total
Cost									
Balance at 1 January 2021	**7,190**	**17,939,033**	**41,753,361**	**82,200,366**	**1,685,769**	**2,379,596**	**20,413**	**2,210,404**	**148,196,132**
Additions	509,539	46,356	389,072	994,928	151,044	84,170	-	2,945,339	5,120,447
Disposals	-	(592,001)	(253,299)	(1,061,102)	(83,567)	(12,640)	-	(1,004)	(2,003,613)
Transfers	-	265,763	600,946	896,264	7,481	(10,051)	-	(1,760,403)	-
Balance at 31 December 2021	**516,729**	**17,659,151**	**42,490,081**	**83,030,456**	**1,760,727**	**2,441,075**	**20,413**	**3,394,335**	**151,312,966**
Additions	60,919	859,214	1,078,540	1,656,281	442,740	601,184	-	5,638,010	10,336,888
Disposals	(888)	(32,520)	(10,777)	(1,561,632)	(71,583)	(317,419)	-	(1,031,211)	(3,026,030)
Transfers	-	492,825	1,278,397	1,932,677	-	8,631	-	(3,712,530)	-
Relassification to investment property	(49,589)	(4,266,792)	-	-	-	-	-	-	(4,316,380)
Reclassification to assets held for sale	(37,860)	(340,941)	-	-	-	-	-	-	(378,801)
Balance at 31 December 2022	**489,311**	**14,370,937**	**44,836,240**	**85,057,781**	**2,131,884**	**2,733,472**	**20,413**	**4,288,605**	**153,928,643**
Accumulated depreciation and impairment									
Balance at 1 January 2021	**-**	**(16,256,439)**	**(36,829,212)**	**(73,569,654)**	**(1,531,209)**	**(1,781,217)**	**(20,413)**	**-**	**(129,988,144)**
Depreciation charge for the year	-	(510,934)	(1,699,467)	(2,631,863)	(71,204)	(153,621)	-	-	(5,067,089)
Disposals	-	587,919	246,275	958,341	81,817	11,621		-	1,885,972
Transfers	-	-	-	-	-	-	-	-	-
Balance at 31 December 2021	**-**	**(16,179,454)**	**(38,282,404)**	**(75,243,177)**	**(1,520,596)**	**(1,923,217)**	**(20,413)**	**-**	**(133,169,261)**
Depreciation charge for the year	-	(560,057)	(1,598,906)	(2,361,662)	(125,831)	(160,032)	-	-	(4,806,489)
Disposals	-	32,520	10,777	1,199,272	8,795	238,607	-	-	1,489,972
Relassification to investment property	-	3,817,144	-	-	-	-	-	-	3,817,144
Reclassification to assets held for sale	-	318,731	-	-	-	-	-	-	318,731
Balance at 31 December 2022	**-**	**(12,571,116)**	**(39,870,533)**	**(76,405,567)**	**(1,637,631)**	**(1,844,643)**	**(20,413)**	**-**	**(132,349,903)**
Carrying amount									
At 31 December 2020	**7,190**	**1,682,594**	**4,924,149**	**8,630,712**	**154,560**	**598,379**	**-**	**2,210,404**	**18,207,988**
At 31 December 2021	**516,729**	**1,479,697**	**4,207,676**	**7,787,279**	**240,131**	**517,858**	**-**	**3,394,335**	**18,143,705**
At 31 December 2022	**489,311**	**1,799,821**	**4,965,707**	**8,652,214**	**494,252**	**888,829**	**-**	**4,288,605**	**21,578,740**

7 Property, Plant and Equipment (Continued)

Out of the total depreciation charge of AMD 4,806,489 thousand for the year ended 31 December 2022 (2021: AMD 5,067,090 thousand), AMD 4,486,449 thousand is charged to cost of services provided (2021: AMD 4,887,261 thousand), refer to Note 24, AMD 320,134 thousand is charged to general and administrative expenses (2021: AMD 179,823 thousand), refer to Note 26, and no any amount is charged to other operating expenses (2021: AMD 6 thousand), refer to Note 28.

Construction in progress consists of capital expenditure on telecommunication and other equipment.

Prepayments for non-current assets, which mainly relates to purchase of transmitting devices, as of 31 December 2022 amounted to AMD 986,708 thousand (2021: AMD 944,774 thousand). Material balances were used during the year and new advances were transferred for the new projects.

As of 31 December 2022 buildings, land, structures and transmitting devices carried at AMD 3,987,644 thousand (2021: AMD 125,922 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 32.

8 Investment Property

In thousands of Armenian Drams		**2022**	**2021**
Investment properties at fair value at 1 January		**-**	**-**
Transfer from owner occupied premises	7	499,236	-
Fair value gains less losses		5,427,831	-
Investment properties at fair value at 31 December		**5,927,067**	**-**

Investment property includes building located at 24/1 Azatutyan Street, Yerevan, Republic of Armenia. During the year ended 31 December 2022 management changed the intention about use of the building and started renting it out to several tenants.

The investment property is valued annually on 31 December at fair value, by an independent, professionally qualified valuator who has recent experience in valuing similar properties in Armenia. Refer to Note 36 for further information about the fair value measurement.

Direct operating expenses recognised in profit or loss includes AMD 314,230 thousand relating to investment property that generated rental income.

Direct operating expenses recognised in profit or loss include AMD 104,951 thousand relating to investment property that did not generate rental income.

Whole investment property is fully completed and in use at the end of the reporting period.

At 31 December 2022, whole investment property has been pledged to third parties as collateral with respect to borrowings. Refer to Note 32. Where the Company is the lessor, the future minimum lease payments receivable under operating leases of investment properties are as follows:

In thousands of AMD	**2022**	**2021**
1 year	1,771,039	-
2 years	1,154,942	-
Total undiscounted operating lease payments receivable at 31 December	**2,925,981**	**-**

Rental income from investment properties for 2022 was AMD 638,692 thousand.

9 Intangible Assets and Prepayments for indefeasible right-of-use (IRU)

In thousands of Armenian Drams	Computer software	Licences	Other	Internally generated IA	Total
Cost					
Balance at 1 January 2021	**11,517,877**	**17,053,792**	**819,324**	**-**	**29,390,993**
Additions	151,117	506,176	-	-	657,293
Disposals	(231,758)	(147,535)	(217,795)	-	(597,088)
Balance at 31 December 2021	**11,437,236**	**17,412,433**	**601,529**	**-**	**29,451,198**
Additions	796,630	323,986	255	82,626	1,203,497
Disposals	(212,719)	(28,251)	(1)	-	(240,971)
Balance at 31 December 2022	**12,021,147**	**17,708,168**	**601,783**	**82,626**	**30,413,724**
Accumulated amortisation and impairment					
Balance at 1 January 2021	**(10,803,689)**	**(14,064,297)**	**(527,979)**	**-**	**(25,395,965)**
Amortisation for the year	(267,760)	(392,760)	(37,655)	-	(698,175)
Disposals	198,346	146,099	216,854	-	561,299
Balance at 31 December 2021	**(10,873,103)**	**(14,310,958)**	**(348,780)**	**-**	**(25,532,841)**
Amortisation for the year	(101,437)	(690,086)	(37,586)	-	(829,107)
Disposals	206,251	27,246	1	-	233,498
Balance at 31 December 2022	**(10,768,288)**	**(14,973,798)**	**(386,365)**	**-**	**(26,128,450)**
Carrying amount					
At 31 December 2020	**714,188**	**2,989,495**	**291,345**	**-**	**3,995,028**
At 31 December 2021	**564,133**	**3,101,475**	**252,749**	**-**	**3,918,357**
At 31 December 2022	**1,252,859**	**2,734,370**	**215,418**	**82,626**	**4,285,274**

Licences icludes mainly GSM licenses, licenses to connect to certain frequences and others.

Out of the total amortisation charge of AMD 829,107 thousand for the year ended 31 December 2022 (2021: AMD 698,175 thousand), AMD 829,107 thousand is charged to cost of services provided (2021: AMD 698,175 thousand), refer to Note 24. Increase in Computer Software is connected with acquisition of new mobile equipment software.

Movements in prepayments under IRU contracts are as follows:

In thousands of Armenian Drams	2022	2021
Carrying value at 1 January	**303,932**	**-**
Additions	37,506	386,760
Prepayments derecognised on receipt of related IRU services	(129,847)	(82,828)
Total prepayments at 31 December	**211,591**	**303,932**

The Company entered into a Revenue Sharing Agreements. Under this framework agreements, the Company and the counterparties share optical cable. The agreements allow the Company to enter into IRU through Service Order Forms (SOF). The Company acquires a contract which secures its usage of capacity for 3 and 15 year period – such prepayments are presented in these financial statements as prepayments for IRU contracts.

10 Leasehold Improvements

In thousands of Armenian Drams	**Leasehold improvements**
Cost	
Balance at 1 January 2021	**5,949,971**
Additions	32,321
Disposals	(22,452)
Balance at 31 December 2021	**5,959,840**
Additions	203,910
Disposals	(2,254)
Balance at 31 December 2022	**6,161,496**
Accumulated depreciation and impairment	
Balance at 1 January 2021	**(4,441,402)**
Depreciation for the year	(236,477)
Disposals	22,324
Balance at 31 December 2021	**(4,655,555)**
Depreciation for the year	(309,370)
Disposals	-
Balance at 31 December 2022	**(4,964,925)**
Carrying amount	
At 31 December 2020	**1,508,569**
At 31 December 2021	**1,304,285**
At 31 December 2022	**1,196,571**

The total depreciation amounting to AMD 216,456 thousand (2021: AMD 236,477 thousand) is charged to cost of sales, refer to Note 24, AMD 92,914 thousand is charged to general and administrative expenses (2021: nil). Main part of addition is connected with construction works done to the leased new headoffice building.

11 Loans Issued

The Company’s loans issued are denominated in currencies as follows:

In thousands of Armenian Drams		**2022**	**2021**
Loans issued denominated in:	- US Dollars	17,568,700	11,456,491
	- Armenian Drams	461,550	343,124
Total loans issued – before the credit loss allowance		**18,030,250**	**11,799,615**
Less credit loss allowance		(781,003)	(844,253)
Total loans issued		**17,249,248**	**10,955,362**

As of 31 December 2022 and 31 December 2021, all loans were issued to the immediate parent company under several loan agreements. Loans were issued from 12 November 2020 to 14 June 2022 and the contracts maturity dates are from March 2026 to December 2029, depending on the agreement. Several loans were provided interest-free or 5.6%+6m SOFR (the secured overnight financing rate administered by the Federal Reserve Bank of New York (or any other person which takes over the administration of that rate) published by the Federal Reserve Bank of New York (or any other person which takes over the publication of that rate), which is below market rate, therefore the difference between cash payments and respective fair value at initial recognition was recognised in the statement of changes equity. The total effect of the fair value adjustment at the recognition of loans provided during 2022 amounted to AMD 2,121,267 thousand (2021: AMD 2,292,170 thousand). Average effective rate as of 31 December 2022 is 9.5% (31 December 2021: 8.05%).

11 Loans issued (Continued)

Expected credit loss allowance for the loans issued is equal to AMD 1,463,862 thousand as at 31 December 2022 (2021: AMD 1,527,112 thousand) (Note 34). Critical judgements for this estimate are disclosed in the Note 4. The carrying amounts of the loans issued together with expected credit loss allowance do not materially differ from their fair values.

The table below sets out the movements in the Company's loans issued for each of the periods presented. Reclassification to advances to suppliers represents the amount that was agreed to recognise as a prepayment for future services by the Company and by its parent.

In thousands of Armenian Drams	**Loans gross amount**	**Expected credit loss allowance**	**Loans net amount**
Loans issued at 1 January 2022	**11,799,615**	**(844,253)**	**10,955,362**
Cash flows			
Provided loans	10,357,819	-	10,357,819
Repayments of principal	(297,697)	-	(297,697)
Non-cash changes			
Interest accrual	802,618	-	802,618
Remeasurement of ECL	-	63,250	63,250
Discounting of loans (through equity)	(2,121,269)	-	(2,121,269)
Unwinding of discount	458,578	-	458,578
Foreign exchange adjustments	(2,184,168)	-	(2,184,168)
Reclassification to advances to suppliers	(785,246)	-	(785,246)
Loans issued at 31 December 2022	**18,030,250**	**(781,003)**	**17,249,248**

In thousands of Armenian Drams	**Loans gross amount**	**Expected credit loss allowance**	**Loans net amount**
Loans issued at 1 January 2021	**7,366,065**	**(1,141,436)**	**6,224,629**
Cash flows			
Provided Loans	7,537,928	-	7,537,928
Repayments of principal	(478,303)	-	(478,303)
Non-cash changes			
Interest accrual	357,216	-	357,216
Remeasurement of ECL	-	297,183	297,183
Discounting of loans (through equity)	(2,292,170)	-	(2,292,170)
Unwinding of discount	387,553	-	387,553
Foreign exchange adjustments	(1,078,674)	-	(1,078,674)
Loans issued at 31 December 2021	**11,799,615**	**(844,253)**	**10,955,362**

12 Inventories

In thousands of Armenian Drams	**2022**	**2021**
Materials and spare parts	693,462	727,618
Goods for resale	483,083	272,589
Fuel	92,141	60,237
Cards	22,289	24,073
Other	71,936	77,687
Inventory allowance for slow-moving inventory	(754,006)	(730,711)
Total inventories	**608,905**	**431,493**

13 Trade and Other Receivables and Other Non-current Assets

In thousands of Armenian Drams	**2022**	**2021**
Trade receivables - Subscribers	5,230,034	4,234,974
Trade receivables - Interconnect	804,087	1,008,055
Trade receivables - Roaming	704,200	856,441
Trade receivables - Dealers	112,571	172,447
Trade receivables - Other trade	1,744,409	498,865
Less credit loss allowance	(2,355,283)	(2,189,262)
Total financial assets within trade receivables	**6,240,018**	**4,581,520**
Advances to suppliers	1,825,526	1,093,023
Prepaid expenses	103,678	35,948
Other current assets	34,429	-
Total non-financial assets within other receivables	**1,963,633**	**1,128,971**
Total trade and other receivables	**8,203,651**	**5,710,491**

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

	2022	**2021**
In thousands of Armenian Drams	**Trade receivables**	**Trade receivables**
Allowance for credit losses at 1 January	**2,189,262**	**2,449,480**
New originated	20,357	241,419
Total credit loss allowance charge in profit or loss for the period	20,357	241,419
Amounts written of during the year as uncollectable	145,664	(501,637)
Allowance for credit losses at 31 December	**2,355,283**	**2,189,262**

The credit loss allowance for trade receivables is determined according to provision matrix presented in the table below. The provision matrix is based the number of days that an asset is past due, adjusted for GDP growth and unemployment rate movement of Armenia. The provision matrix as at 31 December 2022 is presented below:

In thousands of Armenian Drams	**Current-not past due**	**1-30 days past due**	**31-60 days past due**	**61-90 days past due**	**91-120 days past due**	**Over 121 days past due**	**Total**
Trade receivables, gross	5,996,910	247,281	124,872	100,862	87,328	2,038,048	8,595,301
Expected loss rate, %	1%	15%	47%	68%	81%	100%	
Expected credit losses	(82,910)	(36,951)	(58,079)	(68,803)	(70,492)	(2,038,048)	(2,355,283)
Total trade receivables, net	**5,914,000**	**210,330**	**66,793**	**32,059**	**16,836**	**-**	**6,240,018**

13 Trade and Other Receivables (Continued)

In 2022 the Company provided internet traffic services to one of the customers in total amount of AMD 2,699,790 thousand (2021: AMD 1,685,864 thousand). Amounts of receivables are included in current-not past due part of Trade receivables in the table above. The provision matrix as at 31 December 2021 is presented below:

In thousands of Armenian Drams	**Current-not past due**	**1-30 days past due**	**31-60 days past due**	**61-90 days past due**	**91-120 days past due**	**Over 121 days past due**	**Total**
Trade receivables, gross	4,117,227	434,576	301,742	229,154	239,883	1,448,200	6,770,782
Expected loss rate, %	7%	17%	44%	45%	56%	100%	
Expected credit losses	(298,997)	(72,564)	(131,424)	(103,842)	(134,235)	(1,448,200)	(2,189,262)
Total trade receivables, net	**3,818,230**	**362,012**	**170,318**	**125,312**	**105,648**	**-**	**4,581,520**

Trade and other financial receivables of AMD 3,650,734 thousand (2021: AMD 2,599,252 thousand) are denominated in foreign currency out of which 82% in US Dollars (2021: 78%), 8% in Special Drawing Rights-SDR (2021: 15%), 8% in Euros (2021: 5%) and 1% in GBP (2021: 1%).

As at 31 December 2021 and 31 December 2022 other non-current assets are presented below:

In thousands of Armenian Drams	**2022**	**2021**
Long-term trade receivables	3,073,703	-
Effect of recognizing the receivables from the parent at fair value	(889,764)	-
Other	-	64,578
Less credit loss allowance	(165,160)	-
Total non-current assets	**2,018,779**	**64,578**

Based on the trilateral agreement, signed on 8 September 2022, the wholesale internet service traffic customer transferred its obligations towards the Company to Team CJSC in the amount of advance payment which should be refunded by Team CJSC.

All parties agreed on the terms that Team CJSC undertakes to refund (return) the advanced payment to the customer taking the obligation of customer's payment towards the Company in the amount of USD 2,646 thousand equal to AMD 1,070,294 thousand, for the services provided by the Company. The Company will accept the payment performed by Team CJSC as repayment of the part of wholesale internet traffic customer's obligations under the Master Service agreement signed with the Company. On 01 September 2022 the Company and the Parent company agreed on deferring the payments in the amount of AMD 1,070,293 thousand to be paid in four installments starting from 1 June 2023 to 31 March 2026.

In 2020 the parent company received investment advisory services related to the purchase of 100% of shares of the Company. The price paid for the delivery of advisory services provided by the third party was AMD 1,960,000 thousand without VAT. On 30 October 2020, the service fee was recognised in General and administrative expenses as professional service in the same amount set above. The balance was fully paid by the Company.

In 2022 the Company reassessed the nature of the transaction and considered that the ultimate beneficiary of investment advisory services is the Parent company and the expense was recharged to the Parent company with the same amount. On 29 April 2022 based on the issued invoice by the Company the fee was recognised as Other income from recharging to the Parent in AMD 1,960,000 thousand without VAT (Note 25).

On 02 May 2022, the Parent company and Telecom Armenia CJSC agreed on deferring the payments in the amount of AMD 2,350,000 thousand to be paid in four equal installments starting from November 2023 to November 2026.

14 Term Deposit

The Company has entered into deposit agreement with local bank in amount of AMD 822,000 thousand provided in local currency which have original maturity till September 2023 and interest rate 9.3% which should be repaid on a monthly basis. Bank deposit balances are neither past due nor impaired. The credit quality of term deposits based on credit risk grades as at 31 December 2022 is B+ (S&P Global Ratings).

15 Cash and Cash Equivalents

In thousands of Armenian Drams	2022	2021
Bank balances payable on demand	511,173	1,364,480
Cash in transit	80,908	74,583
Cash on hand	23,719	27,997
Total cash and cash equivalents	**615,800**	**1,467,060**

The table below discloses the credit quality of bank balances based on credit risk grades at 31 December 2022 and 31 December 2021. Cash and cash equivalents are neither past due nor impaired and ECL is insignificant.

In thousands of Armenian Drams	31 December 2022	31 December 2021
S&P Global Ratings B+	487,329	1,337,384
Not rated	23,844	27,096
Total bank balances	**511,173**	**1,364,480**

16 Share Capital

In thousands of Armenian Drams	Number of outstanding shares	Ordinary shares	Total share capital
At 1 January 2021	**188,377,090**	**0.1**	**18,837,709**
At 31 December 2021	**188,377,090**	**0.1**	**18,837,709**
At 31 December 2022	**188,377,090**	**0.1**	**18,837,709**

The total authorised number of ordinary shares is 188,377 thousand shares (2021: 188,377 thousand shares) with a par value of AMD 100 per share (2021: AMD 100 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.
Each shareholder, owner of ordinary shares in the Company, shall be entitled:

- to participate in the general meeting of shareholders with the voting right concerning all issues accordingly to its fully paid-up voting shares,
- to receive dividends,
- to receive their respective share of property in case of Company liquidation,
- in case of increase of the share capital pursuant to the capitalization of the Company's profits, reserves and/or assets prescribed in the Law, to receive free-of-charge newly issued shares, pro rata to their participation in the share capital at that time.

17 Bank Loans

The Company's borrowings are denominated in currencies as follows:

In thousands of Armenian Drams	2022	2021
Borrowings denominated in:		
- US Dollars	18,334,317	8,333,956
- Armenian Drams	-	330,940
Total borrowings at 31 December	**18,334,317**	**8,664,896**

The Company does not apply hedge accounting in respect of its foreign currency obligations or interest rate exposures. The carrying amounts and fair values of borrowings are as follows:

	Carrying amounts		Fair values	
In thousands of Armenian Drams	2022	2021	2022	2021
Bank loan with maturity May 2024 and interest rate 7.5%	-	3,365,881	-	3,365,881
Bank loan with maturity October 2028 and interest rate 8%	-	2,452,120	-	2,452,120
Bank loan with maturity November 2027 and interest rate 8%	-	1,915,310	-	1,915,310
Bank loan with maturity December 2026 and interest rate 7.5%	-	600,644	-	600,644
Bank loan with maturity December 2028 and interest rate 13%	-	330,941	-	330,941
Bank loan with maturity June 2029 and interest rate SOFR+5.6%	17,792,270	-	17,547,177	-
Bank loan with maturity June 2023 and interest rate SOFR+5.6%	787,140	-	787,140	-
Total borrowings at 31 December	**18,579,410**	**8,664,896**	**18,334,317**	**8,664,896**

On 26 May 2022 Company signed USD nominated senior term loan agreements with maturity of 7 years in total amount of AMD 18,301,042 thousand (USD 45,000,000) with European Bank for Reconstruction and Development, International Finance Corporation, Ameriabank CJSC to refinance the Company's existing debt – largely resulting from its leveraged acquisition by TEAM CSJC, and to finance Company's growth capex plan. There will be 14 half-yearly interest repayments after 31 December 2022.

As of 31 December 2022 the Company pledged buildings with net book value AMD 3,987,644 thousand (2021: AMD 125,922 thousand) as a security for the loans with AMD 17,792,270 (2021: AMD 7,733,311) outstanding balance as of that date.

Compliance with covenants. The Company had to comply with certain covenants stipulated in the Loan contracts. As of 31 December 2022, the Company was in compliance with covenants. However, at 31 December 2021 total amount of Company's loans with covenants breached were equal to AMD 1,915,310 thousand (31 December 2020: nil). In addition to that, the covenants prescribed by the loan agreement concluded between TEAM CJSC and Ameriabank, where the Company was a guarantor of a loan with AMD 10,851,434 thousand balance at 31 December 2021 were breached. In December 2021 the banks made decisions to provide waivers to the Company relating to the breaches. Due to this the Company did not reclassify those loans to current liabilities.

18 Rights-of-use Assets and Lease Liabilities

The Company leases various offices and technical territories in land and buildings. Lease contracts are typically made for fixed periods of one to ten years.

In thousands of Armenian Drams	Land	Buildings, offices and shops	Total
Carrying amount at 1 January 2021	**509,741**	**3,848,148**	**4,357,889**
Additions	9,689	485,127	**494,816**
Disposals	(16,120)	(169,188)	**(185,308)**
Depreciation charge	(86,372)	(1,109,607)	**(1,195,979)**
Carrying amount at 31 December 2021	**416,938**	**3,054,480**	**3,471,418**
Additions	342,810	895,373	**1,238,183**
Disposals	(12,049)	(43,236)	**(55,285)**
Depreciation charge	(115,626)	(1,030,981)	**(1,146,607)**
Carrying amount at 31 December 2022	**632,073**	**2,875,636**	**3,507,709**

The Company recognized lease liabilities as follows:

In thousands of Armenian drams	31 December 2022	31 December 2021
Short-term lease liabilities	1,067,167	1,373,865
Long-term lease liabilities	3,166,781	3,100,899
Total lease liabilities	**4,233,948**	**4,474,764**

Interest expense included in finance costs of 2022 was AMD 458,194 (2021: AMD 469,153 thousand). Total cash outflow for leases in 2022 was AMD 2,003,974thousand (2021: AMD 1,274,500 thousand).

Rental of vehicles is short-term and recognised in the statement of profit or loss. Total expense for the rental of vehicles is AMD 42,488 thousand (2021: AMD 16,450 thousand). Refer to Note 24.

19 Reconciliation of Liabilities arising from Financing Activities

The table below sets out an analysis of liabilities from financing activities and the movements in the Company's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

- for the year ended 31 December 2022

In thousands of Armenian drams	Borrowings	Lease liabilities	Financial guarantee	Total
Liabilities from financing activities at 1 January	**8,664,896**	**4,474,764**	**1,907,669**	**15,047,329**
Cash flows				
Loan drawdowns	20,524,762	-	-	20,524,762
Repayments of principal	(8,786,288)	(1,593,593)	-	(10,379,881)
Interest payments	(1,061,837)	(410,381)	-	(1,472,218)
Non-cash changes				
Interest accrual	1,268,616	458,194	-	1,726,810
New leases	-	1,238,182	-	1,238,182
Foreign exchange adjustments	(1,883,029)	-	-	(1,883,029)
Derecognition of financial guarantees	-	-	(1,546,770)	(1,546,770)
Amortisation of financial guarantees	-	-	(360,899)	(360,899)
Other	(392,803)	66,782	-	(326,021)
Liabilities from financing activities at 31 December	**18,334,317**	**4,233,948**	**-**	**22,568,265**

- for the year ended 31 December 2021

In thousands of Armenian drams	Borrowings	Lease liabilities	Financial guarantee	Total
Liabilities from financing activities at 1 January	**4,957,973**	**4,844,605**	**2,668,514**	**12,471,092**
Cash flows				
Loan drawdowns	7,058,409	-	-	7,058,409
Repayments of principal	(2,876,674)	(998,797)	-	(3,875,471)
Interest payments	(521,249)	(275,703)	-	(796,952)
Non-cash changes				
Interest accrual	529,431	469,153	-	998,584
New leases	-	494,816	-	494,816
Foreign exchange adjustments	(479,290)	-	-	(479,290)
Amortisation of financial guarantees	-	-	(760,845)	(760,845)
Other	(3,705)	(59,310)	-	(63,015)
Liabilities from financing activities at 31 December	**8,664,896**	**4,474,764**	**1,907,669**	**15,047,329**

20 Provisions for Asset Retirement Obligations

The Company has a legal obligation to dismantle equipment and restore sites after its expected closure in 20 years. Movements in provisions for asset retirement obligations are as follows:

In thousands of Armenian Drams	**Dismantling of equipment and restoring of leased sites**
Carrying amount at 1 January 2021	**1,292,925**
Unwinding of the present value discount	143,601
Carrying amount at 31 December 2021	**1,436,526**
Unwinding of the present value discount	160,048
Changes in estimates adjusted against property, plant and equipment (capitalised)	(50,469)
Derecognition of asset retirement obligation	(140,860)
Carrying amount at 31 December 2022	**1,405,247**

21 Trade and Other Financial Payables and Advances Received

In thousands of Armenian Drams	**2022**	**2021**
Payables in respect of acquired services	3,382,824	3,713,031
Payables in respect of purchased equipment	1,996,191	1,384,068
Payables in respect of roaming services	1,118,100	584,130
Payables in respect of purchased intangible assets	838,274	516,023
Payables in respect of construction works	820,591	193,555
Payables in respect of purchased inventory	334,781	357,128
Accrued professional services	31,200	31,200
Other payables	1,296	858
Total trade and other financial payables	**8,523,257**	**6,779,993**

Trade payables of AMD 4,670,858 thousand (2021: AMD 3,447,322 thousand) are denominated in foreign currency out of which, mainly 57% in US Dollars (2021: 74%), 4% in SDR (2021: 7%), 38% in Euros (2021: 18%) and 0% in Russian Roubles (2021: 1%).

As of 31 December 2022 and as of 31 December 2021 the advances received comprised of the following balances

In thousands of Armenian Drams	**2022**	**2021**
Advances received for non-current assets to be sold	1,836,320	2,145,331
Advances received from telecom partners	1,459,531	37,175
Advances received from leases (the Company is lessor)	751,456	142
Advances received from subscribers	626,564	675,283
Total advances received	**4,673,871**	**2,857,931**

22 Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In thousands of Armenian Drams	Legal claims	Tax risks	Total
Carrying amount at 1 January 2021	**802**	**-**	**802**
Additions charged to profit or loss	65,920	121,334	187,254
Utilisation of provision	(859)	-	(859)
Carrying amount at 31 December 2021	**65,863**	**121,334**	**187,197**
Additions charged to profit or loss	347,645	-	347,645
Utilisation of provision	-	(121,334)	(121,334)
Carrying amount at 31 December 2022	**413,508**	**-**	**413,508**

All of the above provisions have been classified as current liabilities because the Company does not have an unconditional right to defer settlement beyond one year.

Legal claims. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. The provision for legal claims relates to claim brought against the Company by former employee relating to year 2018 lawsuit with demand to cancel the Company's decision on dismissal. The balance at 31 December 2022 is utilised by the end of April 2023.

Tax risks. Tax risks provision origination in 2021 is connected with penalties arosed due to tax reports corrections, which were paid in 2022.

23 Revenue

All revenue is generated in Armenia, as services are rendered in Armenia.

In thousands of Armenian Drams	2022	2021
Over time		
Mobile services – data exchange	8,216,765	7,243,249
Mobile services – voice	3,602,086	4,265,245
Mobile services – interconnect	2,170,079	2,181,017
Mobile services – roaming	1,049,122	799,185
Mobile services – other	1,074,628	1,038,150
Revenue from mobile communication services	**16,112,680**	**15,526,846**
Over time		
Landline services – internet	4,915,014	4,862,717
Landline services – transit	4,479,964	2,732,522
Landline services – voice	3,973,924	4,535,851
Landline services – interconnect	171,359	199,799
Landline services – other	1,130,134	1,366,704
Revenue from fixed communication services	**14,670,395**	**13,697,593**
At a point in time		
Equipment – mobile services	3,024,869	2,288,897
Equipment – landline telephony services	38,338	61,072
Revenue from sale of equipment	**3,063,207**	**2,349,969**
Lease revenue	713,178	-
Other revenue	17,218	136,106
Total revenues	**34,576,678**	**31,710,514**

24 Cost of Sales

In thousands of Armenian Drams	2022	2021
Cost of services provided		
Depreciation and amortisation	6,678,525	7,017,892
Staff costs	3,544,694	3,160,653
Cost of mobile interconnection services	2,112,264	1,954,405
Frequency permission fees	1,792,119	1,793,975
Electricity	1,542,496	1,364,620
Equipment maintenance and communications line costs	970,635	1,021,129
Internet and other communication	842,900	1,280,761
Costs for roaming services	690,460	377,253
Cost of landline interconnection services	574,868	745,669
Fuel	186,109	135,243
VAT for services	105,239	47,865
SIM cards	93,820	30,659
Recognition / (reversal) of obsolescence provision	65,697	(50,123)
Rental of vehicles	42,588	16,450
Business trips and training	33,361	17,050
Other services of landline network	298,925	282,401
Other services of mobile network	147,791	144,933
Total cost of services provided	**19,722,491**	**19,340,835**
Cost of equipment sold		
Equipment – mobile services	2,905,107	2,234,874
Equipment – landline telephony services	2,738	11,422
Total cost of equipment sold	**2,907,845**	**2,246,296**
Total cost of sales	**22,630,336**	**21,587,131**

Staff costs include contribution to mandatory pension funds amounting AMD 127,118 thousand (2021: AMD 96,267 thousand).

25 Other Operating Income

In thousands of Armenian Drams	2022	2021
Income from recharging to the parent	1,960,000	-
Gains on sale of inventories	8,068	-
Income from write-off of advances received and trade payables	5,491	35,861
Income from penalties	111	234
Other	28,861	62,851
Gains on disposal of property, plant and equipment	-	1,320,065
Foreign exchange gains less loses from operating activity	-	165,363
Income from leases	-	72,201
Total other operating income	**2,002,531**	**1,656,575**

During the year ended 31 December 2021 the Company has sold non operational buildings in different parts of Armenia. Main amount is related to building in Yerevan with sales price AMD 1,046,000 thousand.

26 General and Administrative Expenses

In thousands of Armenian Drams	**2022**	**2021**
Staff costs	2,041,239	2,047,815
Professional services	887,202	661,712
Depreciation and amortisation	413,048	179,823
Office and utility expenses	393,607	239,606
Non-refundable taxes	113,002	72,983
Repair and maintenance expenses	94,368	88,054
Business trip and training costs	56,920	26,679
Insurance	45,455	24,189
Security expenses	27,745	53,677
Representative costs	4,655	44,428
Impairment of non-financial assets	-	164
Other	154,892	46,999
Total general and administrative expenses	**4,232,133**	**3,486,129**

Staff costs in the table above include termination benefits amounting AMD 5,821 thousand (2021: AMD 39,934 thousand) related to the management resignations.

Termination benefit expenses are also included in Cost of sales (see Note 24) amounted AMD 12,612 thousand (2021: AMD 73,711 thousand) and in Distribution expenses (see Note 27) amounted AMD 4,706 thousand (2021: AMD 10,117 thousand) correspondingly.

Staff costs include contribution to mandatory pension funds amounting AMD 73,202 thousand (2021: AMD 55,436 thousand).

27 Distribution Expenses

In thousands of Armenian Drams	**2022**	**2021**
Staff costs	2,268,529	2,064,904
Advertising and marketing services	559,597	431,542
Cash collection expenses	311,851	308,611
Cost of scratch cards	41,502	21,919
Other expenses	106,111	232,949
Total distribution expenses	**3,287,590**	**3,059,925**

Staff costs include contribution to mandatory pension funds amounting AMD 81,353 thousand (2021: AMD 61,609 thousand).

28 Other Operating Expenses

In thousands of Armenian Drams	**2022**	**2021**
Legal claims expenses	347,645	65,920
Losses on disposal of property, plant and equipment	219,642	-
Foreign exchange losses less gains from operating activity	160,831	-
Tax penalty	97,706	121,344
Charity and sponsorship	88,136	32,600
Other non-recoverable taxes	28,942	44,588
Unrecoverable VAT	22,077	29,335
Write-down of inventories	5,397	76
Losses on sale of inventories	-	49,321
Staff costs	-	5,000
Depreciation and amortisation	-	6
Other expenses	129,404	157,749
Total other operating expenses	**1,099,780**	**505,939**

29 Finance Income/Costs

Finance Income

In thousands of Armenian Drams	**2022**	**2021**
Interest income on loans issued	1,261,196	744,769
Unwinding of discount previously recognized	188,011	15,617
Interest income from cash and cash equivalents and term deposit	45,879	3,075
Amortization of financial guarantees	360,899	760,845
Total finance income recognised in profit or loss	**1,855,985**	**1,524,306**

Financial guarantee is recognised in 2020, in 2021 it was amortised, in 2022 it was derecognized in equity.

Finance costs

In thousands of Armenian Drams	**2022**	**2021**
Interest expense on loans received	1,268,617	529,431
Interest expense on leases	458,194	469,153
Provision for asset retirement obligations: unwinding of the present value discount	19,188	143,601
Discounting of financial receivables	-	196,282
Total finance costs	**1,745,999**	**1,338,467**
Less capitalised finance costs	(205,910)	(117,493)
Total finance costs recognised in profit or loss	**1,540,089**	**1,220,974**

The Company capitalised borrowing costs arising on financing directly attributable to the construction of and acquisition of property, plant and equipment. The capitalisation rate was 11.79% (2021: 8.78%).

30 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss comprises the following:

In thousands of Armenian Drams	2022	2021
Deferred tax	1,813,122	993,105
Income tax expense for the year	**1,813,122**	**993,105**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Company's 2022 and 2021 income is 18%. A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Armenian Drams	2022	2021
Profit before tax	**10,490,422**	**4,462,002**
Theoretical tax charge at statutory rate of 18%	(1,888,276)	(803,160)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	1,183,076	341,057
- Non-deductible expenses	(1,107,922)	(531,002)
Income tax expense for the year	**(1,813,122)**	**(993,105)**

Out of total Non-deductible expenses AMD 870,341 thousand represents effect from foreign exchange losses (2021: AMD 449,125 thousand). Out of total Income which is exempt from taxation AMD 796,434 thousand represents effect from foreign exchange gain (2021: AMD 341,057 thousand). In these financial statements they are presented on a net basis.

As of 31 December 2022 the Company had current income tax prepayments in amount of AMD 269,728 thousand (2021: AMD 248,075 thousand). Prepayment was recognized because of higher tax payments in 2021 comparing to actual tax charge amounts. Prepayment will be utilized by the Company in the next periods.

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in the Republic of Armenia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences for the year ended 31 December 2022 is detailed below:

30 Income Taxes (Continued)

In thousands of Armenian Drams	1 January 2022	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2022
Tax effect of temporary differences				
Property, plant and equipment	2,359,065	(442,804)	-	1,916,261
Intangible assets	8,297	(140,307)	-	(132,010)
Leasehold improvements	230,499	(740)	-	229,759
Investment property	-	(1,066,872)	-	(1,066,872)
Provision for inventories	1	(1)	-	0
Deferred expenses	(22,157)	8,518	-	(13,639)
Right-of-use assets and lease liabilities	180,602	(49,879)	-	130,723
Impairment provision for receivables	653,578	144,892	160,157	958,628
Assets retirement obligation	258,575	(5,631)	-	252,944
Deferred income	11,774	(1,277)	-	10,497
Accounts payable	56,765	47,262	-	104,027
Loans issued	(34,493)	(82,544)	381,828	264,791
Financial guarantees	343,380	(64,962)	(278,418)	-
Tax losses	203,766	(158,778)	-	44,988
Net deferred tax asset	**4,249,652**	**(1,813,123)**	**263,567**	**2,700,096**

According to the legislation of Armenia tax losses outstanding as of 31 December 2022 will expire in 2025.

The tax effect of the movements in these temporary differences for the year ended 31 December 2021 is detailed below:

In thousands of Armenian Drams	1 January 2021	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2021
Tax effect of temporary differences				
Property, plant and equipment	2,718,380	(359,315)	-	2,359,065
Intangible assets	241,226	(232,929)	-	8,297
Leasehold improvements	247,371	(16,872)	-	230,499
Provision for inventories	(1)	2	-	1
Deferred expenses	(48,806)	26,650	-	(22,156)
Right-of-use assets and lease liabilities	87,609	92,994	-	180,603
Impairment provision for receivables	680,397	(26,819)	-	653,578
Assets retirement obligation	232,727	25,848	-	258,575
Deferred income	11,280	495	-	11,775
Accounts payable	126,460	(69,697)	-	56,763
Loans issued	-	(60,287)	25,793	(34,494)
Financial guarantees	-	(136,952)	480,333	343,380
Tax losses	439,989	(236,223)	-	203,766
Net deferred tax asset	**4,736,632**	**(993,105)**	**506,125**	**4,249,652**

31 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Earnings per share from continuing operations are calculated as follows:

In thousands of AMD	Note	2022	2021
Profit for the year		8,677,300	3,468,897
Profit for the year attributable to ordinary shareholders		8,677,300	3,468,897
Weighted average number of ordinary shares in issue	16	188,377,090	188,377,090
Basic earnings per ordinary share (expressed in AMD per share)		**46.06**	**18.41**

32 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

At 31 December 2022 the Company was engaged in litigation proceeding with former subscriber in relation to its claim for damages in the form of missed benefits which is resulted from fixed line numbers renaming. No provision has been made as the Company’s management believes that it is not likely that any significant loss will arise and the risk is remote.

Tax contingencies. Certain provisions of tax, currency and customs legislation of the Republic of Armenia are subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax authorities may adopt tougher position on the interpretations and evaluation of legislation as a result of which the interpretation of previously non-challenged by tax authorities’ transactions and activities of tax accounting may be changed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review were made.

In addition to the above matters, management estimates that the Company has other possible obligations from exposure to other than remote tax risks of AMD 1,211,356 thousand (2021: AMD 1,211,356 thousand). These exposures relate to withholding tax that result from uncertainties in interpretation of applicable legislation and related documentation requirements.

Capital expenditure commitments. At 31 December 2022, the Company has contractual capital expenditure commitments in respect of property, plant and equipment amounting to AMD 651,364 thousand (2021: AMD 2,606,974 thousand). In 2022 commitments were short-term and many of them were closed till the end of the year. The Company has already allocated the necessary resources in respect of these commitments. The Company believes that future net income and funding will be sufficient to cover this and any similar commitments.

32 Contingencies and Commitments (Continued)

Environmental matters. The enforcement of environmental regulation in the Republic of Armenia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Pledges. The Company pledged property with net book value of AMD 3,987,644 thousand (AMD 125,922 thousand) as a security for received loans (Note 17). 100% of the Company's shares were also pledged as a security for the same loans.

33 Financial Guarantees

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. In 2021 the Company has guaranteed the obligation of TEAM CJSC (immediate parent of the Company) under the loan agreement with local bank on USD-nominated loan with a maturity in October 2027. Carrying value of the guarantee recognized by the Company as of 31 December 2021 equaled to AMD 1,907,669 thousand based on IFRS 9, higher of i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and ii) the remaining unamortised balance of the amount at initial recognition. In this case the ii) amount was higher. Amortization of the guarantee was based on on a straight-line method over the life of the guarantee and the effect of amortisation was recognised in finance income. Liability from financial guarantee was calculated using a probability-adjusted discounted cash flow analysis. Estimates for the initial recognition of financial calcluations were probability of default by the parent and loss in the event of default. As of 31 December 2022 TEAM CJSC has fully paid the loan, therefore liability from financial guarantee was derecognised with the respective effect on retained earnings.

34 Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The following table provides financial assets and liabilities categories as of 31 December:

34 Financial Risk Management (Continued)

In thousands of Armenian Drams	2022	2021
Assets		
Loans issued (Note 11)	17,249,248	10,955,362
Other non-current assets (Note 13)	2,018,779	64,578
Trade and other receivables (Note 13)		
- Trade receivables, net	6,240,018	4,581,520
Term deposit (Note 14)	823,885	-
Cash and cash equivalents (Note 15)		
- Bank balances payable on demand	511,173	1,364,480
- Cash in transit	80,908	74,583
- Cash on hand	23,719	27,997
Total balance sheet exposure to credit risk	**26,947,730**	**17,068,520**
Guarantees provided (Note 33)	-	1,907,669
Total exposure to credit risk	**24,864,697**	**18,976,189**

Credit risk management. Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Companys of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Company’s management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 13.

Expected credit loss (ECL) measurement. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”) and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate (“EIR”) for the financial instrument or an approximation thereof.

Management models Lifetime ECL*,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

34 Financial Risk Management (Continued)

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

For purposes of measuring PD, the Company defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower is deceased;
- the borrower is insolvent; and

For purposes of disclosure, the Company fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Company.

The Company considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

- 30 days past due;

The Company measures ECL on a portfolio basis. When assessment is performed on a portfolio basis. the Company analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a Company have homogeneous or similar risks.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Credit risks concentration. The Company is exposed to concentrations of credit risk. At 31 December 2022 the Company had six counterparties (2021: four counterparties) with aggregated short-term receivables balances above AMD 100,000 thousand. The total amount of these balances was AMD 4,904,790 thousand, which comprises 78% of total short-term receivables (2021: AMD 2,714,811 thousand which comprises 48% of total receivables).

At 31 December 2022 the Company had 1 counterparty (2021: nil) with aggregated long-term receivables balances above AMD 100,000 thousand. The total amount of these balances was AMD 2,018,779 thousand, which comprises 100% of total long-term receivables (2021: nil).

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice, this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. In respect of currency risk, management monitores intra-day positions. The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

34 Financial Risk Management (Continued)

In thousands of Armenian Drams	At 31 December 2022			At 31 December 2021		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
US Dollars	20,265,212	(21,287,984)	(1,022,773)	13,835,200	(12,777,210)	1,057,990
Euros	392,691	(2,655,365)	(2,262,673)	169,405	(630,425)	(461,020)
SDR	304,015	(202,431)	101,584	383,063	(246,661)	136,402
Russian Roubles	14,188	(16,371)	(2,184)	2,489	(34,650)	(32,161)
GBP	36,113	(4,268)	31,845	36,104	-	36,104
Total	**21,012,219**	**(24,166,420)**	**(3,154,201)**	**14,426,261**	**(13,688,946)**	**737,315**

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Company, with all other variables held constant:

In thousands of Armenian Drams	At 31 December 2022	At 31 December 2021
US Dollar strengthening by 5% (2021: strengthening by 5%)	(51,139)	52,900
US Dollar weakening by 5% (2021: weakening by 5%)	51,139	(52,900)
Euro strengthening by 5% (2021: strengthening by 5%)	(113,134)	(23,051)
Euro weakening by 5% (2021: weakening by 5%)	113,134	23,051
SDR strengthening by 5% (2021: strengthening by 5%)	5,079	6,820
SDR weakening by 5% (2021: weakening by 5%)	(5,079)	(6,820)
Russian Rouble strengthening by 15% (2021: strengthening by 15%)	(328)	(4,824)
Russian Rouble weakening by 15% (2021: weakening by 15%)	328	4,824
GBP strengthening by 5% (2021: strengthening by 5%)	1,592	1,805
GBP weakening by 5% (2021: weakening by 5%)	(1,592)	(1,805)

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 12 months	More than 1 year	Non-monetary	Total
Total financial assets with fixed interest rate	-	1,357,111	12,524,122	-	13,881,233
Total financial assets with variable interest rate	-	-	6,743,905	-	6,743,905
Total financial liabilities with fixed interest rate	133,280	1,721,584	3,166,781	-	5,021,645
Total financial liabilities with variable interest rate	81,070	-	17,465,550	-	17,546,620
Net interest sensitivity gap at 31 December 2022	**(214,350)**	**(364,473)**	**(1,364,304)**	**-**	**(1,943,127)**
Total financial assets with fixed interest rate	-	-	10,955,362	-	10,955,362
Total financial liabilities with fixed interest rate	52,375	576,129	8,036,392	-	8,664,896
Net interest sensitivity gap at 31 December 2021	**(52,375)**	**(576,129)**	**2,918,970**	**-**	**2,290,466**

34 Financial Risk Management (Continued)

At 31 December 2022, if interest rates at that date had been 1% lower (2021: 1% lower) with all other variables held constant, profit for the year would have been AMD 68,875 thousand (2021: AMD nil) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 1% higher (2021: 1% higher), with all other variables held constant, profit would have been AMD 68,875 thousand (2021: nil) lower, mainly because of higher interest expense on variable interest liabilities.

The Company monitors interest rates for its financial instruments. The table below summarises contactual interest rates at the respective end of the reporting period based on reports reviewed by key management personnel:

	2022		2021	
In % p.a.	**AMD**	**USD**	**AMD**	**USD**
Assets				
Cash and cash equivalents	0-6	0-1	0-6	0-1
Loans issued	13	0, 8, SOFR+5.6	0, 13	8
Borrowings received	n/a	SOFR+5.6	13	7.5 - 8

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Liquidity risk is managed by finance department of the Company. Management monitors monthly rolling forecasts of the Company's cash flows. The Company seeks to maintain a stable funding base primarily consisting of trade and other receivables. The Company invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Company's liquidity portfolio comprises cash and cash equivalents (Note 15). The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The maturity analysis of financial liabilities at 31 December 2022 is as follows:

In thousands of Armenian Drams	**Demand and less than 1 month**	**From 1 to 12 month**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Bank loans received	81,070	787,697	19,625,619	5,021,208	25,515,594
Trade and other financial payables (Note 21)	1,206,887	7,316,370	-	-	8,523,257
Lease liabilities	138,117	1,197,722	3,492,433	1,348,791	6,177,063
Total future payments, including future principal and interest payments	**1,426,074**	**9,301,789**	**23,118,052**	**6,369,999**	**40,215,914**

The table above shows liabilities at 31 December 2022 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross lease obligations (before deducting future finance charges) and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

The maturity analysis of financial liabilities at 31 December 2021 is as follows:

34 Financial Risk Management (Continued)

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 12 month	From 12 months to 5 years	Over 5 years	Total
Bank loans received	3,929	624,575	10,886,710	401,860	11,917,073
Guarantees provided (Note 33)	1,907,669	-	-	-	1,907,669
Trade and other financial payables (Note 21)	285,425	6,494,568	-	-	6,779,993
Lease liabilities	125,182	963,656	3,358,600	1,421,278	5,868,716
Total future payments, including future principal and interest payments	**2,322,205**	**8,082,799**	**14,245,310**	**1,823,137**	**26,473,451**

Guarantees provided are included in the category "Demand and less than 1 month" as the Company is dependent on the fulfilment of the obligations by the borrower to the bank on the guaranteed loan and actions that the bank may take based on the loan and guarantee agreements terms.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

35 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Company managed as of 31 December 2022 was AMD 31,335,669 thousand (2021: AMD 23,859,064 thousand).

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total long- and short-term loans divided by total capital under management. The Company considers total capital under management to be equity as shown in the statement of financial position. During 2022, the Company's strategy, which was unchanged from 2021, was to maintain the gearing ratio within 40% to 60%. The gearing ratio increased from 36% to 59% following. The Company has complied with all externally imposed capital requirements throughout 2022 (for 2021 refer to note 17). These are set out in the Company's loan agreements based on which the Company is required to maintain a gearing ratio at a level below 65%.

36 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

36 Fair Value Disclosures (Continued)

	2022		2021	
In thousands of Armenian drams	Level 3	Total	Level 3	Total
NON-FINANCIAL ASSETS				
- Investment properties	5,927,067	5,927,067	-	-
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS AT 31 DECEMBER	**5,927,067**	**5,927,067**	**-**	**-**

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2022:

In thousands of Armenian drams	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reaso-nable change	Sensitivity of fair value measu-rement
ASSETS AT FAIR VALUE						
- Investment properties	5,927,067	Discounted cash flows ("DCF")	WACC	11.37%	+ 0.5 % - 0.5 %	-89,252 +91,169
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**5,927,067**					

The above tables disclose the sensitivity to valuation inputs for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change the fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in the fair value are recognised in other comprehensive income or total equity. There were no changes in the valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2022 (2021: none).

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2022		31 December 2021	
In thousands of Armenian Drams	Level 3 fair value	Carrying value	Level 3 fair value	Carrying value
ASSETS				
Financial assets at AC				
- Trade receivables	6,240,018	6,240,018	4,581,520	4,581,520
- Loan provided	17,249,248	17,249,248	6,625,932	6,625,932
- Long term trade receivables	2,018,779	2,018,779	-	-
- Term deposits	823,885	823,885	-	-
- Cash and cash equivalents	615,800	615,800	1,467,060	1,467,060
TOTAL ASSETS	**26,947,730**	**26,947,730**	**12,674,512**	**12,674,512**

36 Fair Value Disclosures (Continued)

In thousands of Armenian Drams	31 December 2022 Level 3 fair value	31 December 2022 Carrying value	31 December 2021 Level 3 fair value	31 December 2021 Carrying value
LIABILITIES				
Borrowings				
- Bank loan	18,334,317	18,334,317	8,664,896	8,664,896
Other financial liabilities				
- Trade payables	8,523,257	8,523,257	6,779,993	6,779,993
TOTAL LIABILITIES	**26,857,574**	**26,857,574**	**15,444,889**	**15,444,889**

The fair values in level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty.

Liabilities carried at amortised cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

37 Presentation of Financial Instruments by Measurement Category

As of 31 December 2022, and 2021, all of the Company's financial assets and liabilities were carried at AC.

38 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2022, the outstanding balances with related parties were as follows:

In thousands of Armenian Drams	Immediate parent company	Entities under common control with the Companyl
Assets		
Loans issued (contractual interest rate 7.5-10.3%)	11,635,786	-
Loans issued (contractual interest rate 0%)	5,425,111	-
Other non-current assets	2,166,338	
Trade and other receivables, except for prepayments	529,637	370,646
Prepayments for current assets	1,604,777	123,699
Prepayments for non-current assets	-	30,847
Liabilities		
Advances received	-	109,259
Trade and other payables	-	154,739

38 Balances and Transactions with Related Parties (Continued)

At 31 December 2021, the outstanding balances with related parties were as follows:

In thousands of Armenian Drams	**Immediate parent company**	**Entities under common control with the Company**
Assets		
Loans issued (contractual interest rate 7.5-8%)	6,134,512	-
Loans issued (contractual interest rate 0%)	4,820,849	-
Prepayments for current assets	976,804	4,749
Liabilities		
Financial guarantees provided	1,907,669	-
Advances received	-	1,844,005
Trade and other payables	80	218,854

The income and expense items as well as other transactions with related parties for the year ended 31 December 2022 were as follows:

In thousands of Armenian Drams	**Immediate parent company**	**Entities under common control**
Expenses		
Purchases of services	496,149	37,647
Management fees	435,000	-
Income		
Services provided	1,963,130	10,893
Gain from sale of property, plant and equipment	9,025	904,491
Interest income	1,261,196	-
Other transactions		
Loans issued	10,357,819	-

As of 31 December 2020 the Company has provided a guarantee in relation to the bank loan attracted by the immediate parent company in amount of AMD 16,521,400 thousand as well as pledged its property with net book value of AMD 902,218 thousand. This guarantee remained in 2021 (Note 33).

The income and expense items as well as other transactions with related parties for the year ended 31 December 2021 were as follows:

In thousands of Armenian Drams	**Immediate parent company**	**Entities under common control**
Expenses		
Purchases of services	261,784	25,120
Management fees	256,667	-
Income		
Services provided	4,234	7,142
Interest income	744,769	-
Other transactions		
Loans issued	7,537,928	-

Related party transactions have been performed by the Company on arms-length basis, except for the certain loans issued and guarantees provided transactions (Note 11, 33).

Key management compensation. Key management includes General Director, Deputy General Director, Finance Director, Operations Director, Technical Director, Commercial Director and Board Member.

38 Balances and Transactions with Related Parties (Continued)

Key management compensation is presented below:

In thousands of Armenian Drams	2022 Expense	2022 Net accrued liability	2021 Expense	2021 Net accrued liability
Short-term benefits:				
- Salaries	491,092	57,459	499,088	52,422
Business trip and representative costs	27,891	-	20,648	-
Total	**518,982**	**57,459**	**519,736**	**52,422**

Total management compensation expense in the table above include contribution to mandatory pension funds amounting AMD 4,565 thousand (2021: AMD 4,170 thousand).

39 Events after the Reporting Period

IPO process. The Company begin transition from private to public in order to do initial public offering (IPO) process in Armenian Stock Exchange. For that purposes local bank is appointed as underwriter and underwriting services engagement agreement was signed on January 2023. The Prospectus was submitted to the CBA in May 2023. The CBA will have 15 days for review and confirmation of Prospectus. After that the Prospectus will be published.