TELECOM Armenia CJSC

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

31 December 2021

Contents

Independent Auditor's Report

To the Board of Directors and Shareholder 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 2021, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- 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 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.

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 International Financial Reporting Standards, 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.

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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.

Alexey Rusanov
Director
PricewaterhouseCoopers Armenia LLC

1 June 2022

Yerevan, Republic of Armenia

TELECOM Armenia CJSC
Statement of Financial Position

In thousands of Armenian Drams	Note	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	7	18,143,705	18,207,988
Intangible assets	8	4,222,289	3,995,028
Leasehold improvements	9	1,304,285	1,508,569
Right-of-use assets	26	3,471,418	4,357,890
Prepayments for non-current assets	7	944,774	183,222
Loans issued non-current	10	10,955,362	6,224,629
Deferred income tax assets	25	4,249,652	4,736,632
Deferred expenses non-current		31,135	94,656
Other non-current assets		64,578	64,578
Total non-current assets		**43,387,198**	**39,373,192**
Current assets			
Inventories	11	431,493	223,831
Trade and other receivables	12	5,710,491	3,477,754
Current income tax prepayments	25	248,075	707,496
Other taxes receivable		62,900	168,805
Deferred expenses current		91,956	176,491
Cash and cash equivalents	13	1,467,060	215,526
Total current assets		**8,011,975**	**4,969,903**
TOTAL ASSETS		**51,399,173**	**44,343,095**
EQUITY			
Share capital	14	18,837,709	18,837,709
Retained earnings		2,195,699	512,847
Other reserves		2,825,656	2,825,656
TOTAL EQUITY		**23,859,064**	**22,176,212**
LIABILITIES			
Non-current liabilities			
Bank loans non-current	27	8,036,392	3,506,770
Lease liabilities non-current	26	3,100,899	3,784,065
Guarantees provided non-current	28	1,517,155	2,278,000
Provisions for asset retirement obligations	15	1,436,526	1,292,925
Deferred income non-current		32,031	34,368
Total non-current liabilities		**14,123,003**	**10,896,128**
Current liabilities			
Bank loans current	27	628,504	1,451,203
Lease liabilities current	26	1,373,865	1,060,540
Guarantees provided current	28	390,514	390,514
Trade and other financial payables	16	6,779,993	6,309,042
Provisions for liabilities and charges	17	187,197	802
Deferred income current		33,383	28,296
Payables to staff		697,133	859,677
Advances received	16	2,857,931	671,894
Other taxes payable		468,586	498,787
Total current liabilities		**13,417,106**	**11,270,755**
TOTAL LIABILITIES		**27,540,109**	**22,166,883**
TOTAL LIABILITIES AND EQUITY		**51,399,173**	**44,343,095**

Approved for issue and signed on 1 June 2022

Hayk Yesayan
General Director

Karen Mnatsakanyan
Financial Director

Tatevik Gevorgyan
Chief Accountant

In thousands of Armenian Drams	Note	2021	2020
Revenue from mobile communication services	18	15,526,846	14,811,487
Revenue from fixed communication services	18	13,697,593	12,269,755
Revenue from sale of equipment	18	2,349,969	2,344,838
Other revenue	18	136,106	115,017
Total revenues		**31,710,514**	**29,541,097**
Cost of services provided	19	(19,340,835)	(14,971,242)
Cost of equipment sold	19	(2,246,296)	(2,220,152)
Total cost of sales		**(21,587,131)**	**(17,191,394)**
Gross profit		**10,123,383**	**12,349,703**
Other operating income	20	1,953,758	1,339,946
General and administrative expenses	21	(3,486,129)	(6,035,970)
Distribution expenses	22	(3,059,925)	(3,293,747)
Other operating expenses	23	(747,358)	(1,009,306)
Operating profit		**4,783,729**	**3,350,626**
Finance income	24	1,524,306	369,334
Finance costs	24	(1,220,974)	(713,544)
Foreign exchange (losses less gains) / gains less losses		(625,059)	493,149
Profit before income tax		**4,462,002**	**3,499,565**
Income tax expense	25	(993,105)	(1,209,746)
PROFIT FOR THE YEAR		**3,468,897**	**2,289,819**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,468,897**	**2,289,819**

In thousands of Armenian Drams	Note	Share capital	Retained earnings	Other Reserves	Total
Balance at 1 January 2020		**18,837,709**	**22,479,767**	**2,825,656**	**44,143,132**
Total comprehensive income for 2020		-	2,289,819	-	2,289,819
Distribution to the previous owner	33	-	(4,927,100)	-	(4,927,100)
Effect of recognizing the loans issued to the parent company at fair value	10	-	(1,141,436)	-	(1,141,436)
Recognition of financial guarantee at fair value	28	-	(2,668,514)	-	(2,668,514)
Recognition of loan receivable from the related party	10		3,290,311	-	3,290,311
Dividends declared	14	-	(18,810,000)	-	(18,810,000)
Balance at 31 December 2020		**18,837,709**	**512,847**	**2,825,656**	**22,176,212**
Total comprehensive income for 2021		-	3,468,897	-	3,468,897
Effect of recognizing the loans issued to the parent company at fair value	10	-	(2,292,170)	-	(2,292,170)
Deferred tax effect on transactions reflected in equity	25	-	506,125	-	506,125
Balance at 31 December 2021		**18,837,709**	**2,195,699**	**2,825,656**	**23,859,064**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

In thousands of Armenian Drams	**Note**	**2021**	**2020**
Cash flows from operating activities			
Cash received from customers		31,991,573	33,685,451
Interest received		4,393	135,250
Interest paid		(403,756)	-
Cash proceeds from other operating activities		2,112,781	265,622
Cash paid to service providers		(8,077,090)	(12,423,862)
Cash paid to staff		(7,324,398)	(8,452,895)
Income taxes paid		-	(566,100)
Taxes other than on income tax paid		(3,704,099)	(3,458,213)
Cash paid to inventory suppliers		(4,306,355)	(2,400,505)
Cash paid for business trips		(49,259)	(42,840)
Cash used in other operating activities		1,441	(585,504)
Net cash from operating activities		**10,245,231**	**6,156,404**
Cash flows from investing activities			
Purchases of property, plant and equipment		(6,788,991)	(5,264,563)
Proceeds from the sale of property, plant and equipment		1,957,683	141,379
Loans issued – repayments received		478,303	19,617,066
Net cash from investing activities		**(4,353,005)**	**14,493,882**
Cash flows from financing activities			
Received loans		7,058,409	4,941,895
Repayments of loans		(2,876,674)	(142,000)
Loans issued to the parent company		(7,537,928)	(3,676,194)
Distribution to the previous owner		-	(4,927,100)
Dividends paid to the parent company		-	(17,900,658)
Withholding tax paid on dividends paid to the parent company		-	(940,500)
Lease payments		(1,274,500)	(1,408,686)
Net cash used in financing activities		**(4,630,693)**	**(24,053,243)**
Effect of exchange rate changes on cash and cash equivalents		(9,999)	51,207
Net change in cash and cash equivalents		**1,251,534**	**(3,351,750)**
Cash and cash equivalents at the beginning of the year	**13**	**215,526**	**3,567,276**
Cash and cash equivalents at the end of the year	**13**	**1,467,059**	**215,526**

1 TELECOM Armenia CJSC and its Operations

These financial statements have been prepared for the year ended 31 December 2021 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.

As of 31 December 2019, the Company's immediate parent company was PJSC VimpelCom and ultimate parent company was VEON Ltd (former VimpelCom Ltd), an entity registered in Netherlands. On October 28, 2020, 100% of the company's shares were sold to TEAM LLC, which is a legal entity registered in the Republic of Armenia. On November 16, 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 2021 and 2020, the Company's immediate parent company was TEAM CJSC (LLC) 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. As of 31 December 2021, the Company operated telecommunications services in Armenia primarily under the "Beeline" brand name.

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 28. 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 Armenian 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. Some of the above measures were subsequently relaxed, however, as of 31 December 2021, the global infection levels remain high, vaccination rate is relatively low, and there is a risk that the Armenian authorities would impose additional restrictions in subsequent periods, including due to emerging new variants of the virus.

In 2021 the Armenian economy demonstrated positive dynamics in recovery from the pandemic. 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.

Expected credit losses. For the purpose of 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 29 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. 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.

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 5,405,131 thousand as of 31 December 2021 (31 December 2020: AMD 6,300,852 thousand).

Cash-flow forecast for the next 12 months shows that the Company will be able to fulfil its payment obligations at their maturities. The Company is in regular process of negotiations with suppliers to get better payment terms, and with banks to receive loans with favorable conditions. The Company's policy is based on minimizing interest costs and getting the grace period for existing loan portfolio which justified with new senior term loan agreements with maturity of 7 years in total amount of AMD 20,122,650 thousand with European Bank for Reconstruction and Development, International Finance Corporation and Ameriabank CJSC (Note 34).

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. 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 2021, the principal rate of exchange used for translating foreign currency balances was USD 1 = AMD 480.14, EUR 1 = AMD 542.61, RUB 1 = AMD 6.42, (2020: USD 1 = AMD 522.59, EUR 1 = AMD 641.11, RUB 1 = AMD 7.02).

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.

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

Acquired computer software licences, patents and trademarks 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
Software licences	9.5
Other 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.

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. 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. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

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") and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), 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 group 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 FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Company measures ECL and recognises net impairment losses on financial and contract 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.

Debt instruments measured at AC, trade and other receivables, loans issued, and contract assets are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Company applies the simplified approach (i.e. provision matrix) for calculating a lifetime ECL for its trade and other receivables, including unbilled receivables (contract assets). 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. 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. Rates for collective impairment are revised quarterly based on the collectability of the accounts receivable. Rates of collective impairment as of 31 December 2021 and 31 December 2020 are presented in Note 12.

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 (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

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.

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 for 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.

Assets arising from a lease are initially measured on a present value basis.

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 for equipment	8
Buildings for equipment	8
Offices	3

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 estimated cost of completion and selling expenses.

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.

Other reserves. Other reserves 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.

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.

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.

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 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.

3 Significant Accounting Policies (Continued)

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 assets are transferred to receivables when the rights become unconditional, which usually occurs when the Company issues an invoice to the customer.

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 revenue” and “Advances received” in the statement of financial position. All “deferred revenue” 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 deferred in the statement of financial position within other assets. 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. Management estimates the average customer life for revenue (such as upfront fees) from contracts with an indefinite term and for customer acquisition costs. 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 28.

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

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 33.

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 (2022-2026) (2020: 2021-2027) will be lower by 10% (2020:10%), the ECL on the loans issued will be higher by AMD 406,300 thousand (2020: will not change materially). If the probability of default will be higher by 10% (2020:10%), the ECL on the loans issued will be higher by AMD 140,422 thousand (2020: AMD 654,871 thousand).

Impairment of property plant and equipment and intangible assets. As of 31 December 2021 the Company's management identified possible indicators of impairment to property, plant and equipment, intangible assets and right-of-use assets. Impairment test based on value in use (DCF model) method was performed in order to estimate if the impairment should be recognized or not. The calculations used in cash flow projections are based on the financial budget approved by management for 2022. Cash flows for subsequent years (2023-2026 and the terminal period) were based on the long-term forecast prepared by the management with the similar trends in volume of services rendered. Prices for future periods were defined based on market trends (decrease of ARPU for voice connections and increase of ARPU for data transmission, development of wholesale revenue, decline of fixed voice connections, etc.) together with inflation forecast.

Pre-tax discount rate of 15,10% was used in discounting future cash flows to the current value. Long-term growth rate of 2.7% was used for the periods after 2026. Discount rate was initially determined in US dollars based on the risk-free interest rate on US Treasury bonds maturing in 2046, adjusted by the amount of risk premium to reflect the increased risk of investing in equity securities and systemic risk specific to the Company. The market risk premium for equity investments is 5.5%. Size risk premium is defined at the level of 3.21% based on Duff & Phelps Yearbook based on the size of the Company. The weighted average cost of capital is based on an industry equity / debt ratio. The discount rate, expressed in the functional currency of the Company (AMD), is adjusted in accordance with the long-term forecast of inflation in Armenia and the US.

The following are the key assumptions on which value in use was determined and to which recoverable amount is most sensitive:

	2022 – 2026
Wholesale data traffic revenue (foreign customers), mln AMD	Growth from 3.8 to 5.6 mln AMD during 2022-2026
Mobile connection – annual growth of customers base from 2022, %	2.8%
Mobile connection – annual growth of ARPU from 2022, %	2.1%
Fixed internet connection – annual growth of customers base from 2022, %	2.8%
Fixed internet connection – annual growth of ARPU from 2022, %	5.0%

Calculations prepared by the management confirmed absence of impairment of non-current non-financial assets as of 31 December 2021.

Table below provides information about the sensitivity analysis of the impairment test to the potential changes in key assumptions presented below. Numbers in the table below represent the potential effect on the amount of value in use for the Company (result of DCF model).

	Effect on value in use
Decrease of data traffic revenue by 10%	(981,470)
Mobile connection – decrease of growth rate of customer base by 2%	(9,932,300)
Mobile connection – decrease of annual growth of ARPU by 2%	(10,003,840)
Fixed internet connection – decrease of growth rate of customer base by 3%	(5,220,460)
Fixed internet connection – decrease of annual growth of ARPU by 3%	(5,106,780)

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

Changes in the assumptions mentioned above will not lead to the change in the carrying amounts of non-financial non-current assets.

Fair value measurement for guarantee issued. In 2020 the Company issued a guarantee in favour of its immediate parent (Note 28). Total amount of the USD-nominated bank loan guaranteed as at 31 December 2021 is AMD 10,851,434 thousand (31 December 2020: AMD 16,521,400 thousand). The guarantee was recognized at fair value at the recognition date amounted at AMD 2,668,514 thousand (fair value measurement details disclosed in Note 31), after subsequent measurement (straight-line amortization) it was amounted to AMD 1,907,669 thousand. Key management judgements in valuation of guarantee were the priority of repayment of the guaranteed loan, discount rate (8.0% for USD nominated loan) and amounts of free cash-flows in the guaranteed loan period. If the free cash-flows in the forecasted period (2022-2030) will be lower by 10%, the fair value of the guarantee issued will not change materially.

Extension and termination options. Extension and termination options are included in a number of property leases of the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For certain leases the management considered early termination options available to the Company. This is mostly applicable to the cases when the useful life of the equipment located in the leased premises is lower than the lease contract. Early termination of the lease contracts does not lead to any significant additional obligations or expenses for the Company.

Useful lives of property, plant and equipment, and intengible assets, and their revision. During 2021 the Company revised useful lives for some groups of Property, Plant and Euipment and Intangible Assets. Useful lives for cable nework was increased from 6 to 20 years and useful lives for mobile telecommnuication 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 to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2021 would be to increase/decrease it by AMD 323,570 thousand (2020: AMD 506,642 thousand).

5 Adoption of New or Revised Standards and Interpretations

COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020. The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

The Company negotiated various rent concessions with lessors for leases of properties and does not apply the practical expedient.

The following amended standards became effective from 1 January 2021, but did not have any material impact on the Company:

5 Adoption of New or Revised Standards and Interpretations (continued)

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform. *End date for Phase 1 relief for non contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Effect of IBOR reform. Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Most IBOR rates would stop being published by 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023.

The Company does not have IBOR based loans and is not exposed to a risk of IBOR-based financial instruments.

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 2022 or later, and which the Company has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021, the effective date subsequently modified to 1 January 2023 by the Amendments to IFRS 17 as discussed below). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements. Potential impact on insurance products embedded in loans and similar instruments is also under consideration.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The Company is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

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 2022). 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 is currently assessing the impact of the amendments on its financial statements.

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 is currently assessing the impact of the amendments on its financial statements.

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, in order 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.

6 New Accounting Pronouncements (Continued)

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 consolidated 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 Company is currently assessing the impact of the amendments on its financial statements.

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 is currently assessing the impact of the amendments on its financial statements.

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 is currently assessing the impact of the amendments on its financial statements.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The Company is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

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 assessing the impact of the amendments on its financial statements.

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	**Buildings, land and structures**	**Transmitting devices**	**Plant and equipment**	**Vehicles**	**Fixtures and fittings**	**Other**	**Construction in progress**	**Total**
Cost								
Balance at 1 January 2020	**17,900,900**	**41,487,258**	**82,100,476**	**1,685,829**	**2,459,918**	**20,423**	**1,980,579**	**147,635,383**
Additions	-	-	990,868	2,820	9,130	-	3,248,652	4,251,470
Disposals	(18,337)	(756,593)	(2,598,981)	(2,880)	(109,707)	(10)	(204,213)	(3,690,721)
Transfers	63,660	1,022,696	1,708,003	-	20,255	-	(2,814,614)	-
Balance at 31 December 2020	**17,946,223**	**41,753,361**	**82,200,366**	**1,685,769**	**2,379,596**	**20,413**	**2,210,404**	**148,196,132**
Additions	336,052	33,736	959,309	154,494	84,327	-	4,150,389	5,718,307
Disposals	(592,001)	(253,299)	(1,067,120)	(83,567)	(12,816)	-	(592,670)	(2,601,473)
Transfers	322,144	956,925	1,013,520	3,092	8,494	-	(2,304,175)	-
Balance at 31 December 2021	**18,012,418**	**42,490,723**	**83,106,075**	**1,759,788**	**2,459,601**	**20,413**	**3,463,948**	**151,312,966**
Accumulated depreciation and impairment								
Balance at 1 January 2020	**(16,544,321)**	**(37,921,039)**	**(73,699,027)**	**(1,505,632)**	**(1,959,490)**	**(20,412)**	**(402,518)**	**(132,052,439)**
Depreciation charge for the year	(306,514)	(1,215,280)	(3,374,436)	(50,271)	(119,906)	(12)	-	(5,066,419)
Disposals	20,242	703,599	1,931,801	2,880	100,365	10	105,461	2,864,358
Recovery of impairment	574,154	1,603,508	1,572,008	21,814	197,814	1	297,057	4,266,356
Balance at 31 December 2020	**(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	(516,310)	(1,699,467)	(2,626,488)	(71,204)	(153,621)	-	-	(5,067,090)
Disposals	587,919	246,275	958,341	81,817	11,621	-	-	1,885,973
Transfers	18	-	176	-	(194)	-	-	-
Balance at 31 December 2021	**(16,184,812)**	**(38,282,404)**	**(75,237,625)**	**(1,520,596)**	**(1,923,411)**	**(20,413)**	**-**	**(133,169,261)**
Carrying amount								
At 31 December 2019	**1,356,579**	**3,566,219**	**8,401,449**	**180,197**	**500,428**	**11**	**1,578,061**	**15,582,944**
At 31 December 2020	**1,689,784**	**4,924,149**	**8,630,712**	**154,560**	**598,379**	**-**	**2,210,404**	**18,207,988**
At 31 December 2021	**1,827,606**	**4,208,319**	**7,868,450**	**239,192**	**536,190**	**-**	**3,463,948**	**18,143,705**

7 Property, Plant and Equipment (Continued)

Out of the total depreciation charge of AMD 5,067,090 thousand for the year ended 31 December 2021 (2020: AMD 5,066,419 thousand), AMD 4,887,261 thousand is charged to cost of services provided (2020: AMD 4,945,729 thousand), refer to Note 19, AMD 179,823 thousand is charged to general and administrative expenses (2020: AMD 120,605 thousand), refer to Note 21, and AMD 6 thousand is charged to other operating expenses (2020: AMD 85 thousand), refer to Note 23.

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

Prepayments for non-current assets as of 31 December 2021 amounted to AMD 944,774 thousand (2020: AMD 183,222 thousand). Increase in the balance is due to advance payments made for acquisition of IT equipment in amount of AMD 821,073 thousand.

8 Intangible Assets

In thousands of Armenian Drams	**Computer software**	**Licences**	**Other**	**Total**
Cost				
Balance at 1 January 2020	**11,212,029**	**15,893,812**	**819,324**	**27,925,165**
Additions	405,069	1,472,857	-	1,877,926
Disposals	(99,221)	(312,877)	-	(412,098)
Balance at 31 December 2020	**11,517,877**	**17,053,792**	**819,324**	**29,390,993**
Additions	151,117	506,176	386,760	1,044,053
Disposals	(231,758)	(147,535)	(217,795)	(597,088)
Balance at 31 December 2021	**11,437,236**	**17,412,433**	**988,289**	**29,837,958**
Accumulated amortisation and impairment				
Balance at 1 January 2020	**(10,674,741)**	**(13,507,374)**	**(497,297)**	**(24,679,412)**
Amortisation for the year	(265,155)	(1,403,302)	(36,954)	(1,705,411)
Disposals	99,549	311,763	-	411,312
Recovery of impairment	36,658	534,616	6,272	577,546
Balance at 31 December 2020	**(10,803,689)**	**(14,064,297)**	**(527,979)**	**(25,395,965)**
Amortisation for the year	(267,760)	(392,760)	(120,483)	(781,003)
Disposals	198,346	146,099	216,854	561,299
Balance at 31 December 2021	**(10,873,103)**	**(14,310,958)**	**(431,608)**	**(25,615,669)**
Carrying amount				
At 31 December 2019	**537,288**	**2,386,438**	**322,027**	**3,245,753**
At 31 December 2020	**714,188**	**2,989,495**	**291,345**	**3,995,028**
At 31 December 2021	**564,133**	**3,101,475**	**556,681**	**4,222,289**

Out of the total amortisation charge of AMD 781,003 thousand for the year ended 31 December 2021 (2020: AMD 1,705,411 thousand), AMD 781,003 thousand is charged to cost of services provided (2020: AMD 1,705,411 thousand), refer to Note 19.

Increase in Other intangible assets is connected with payment under IRU contract in 2021 in amount of AMD 386,760 thousand.

9 Leasehold Improvements

In thousands of Armenian Drams	**Leasehold improvements**
Cost	
Balance at 1 January 2020	**5,849,485**
Additions	142,027
Disposals	(41,541)
Balance at 31 December 2020	**5,949,971**
Additions	32,321
Disposals	(22,452)
Balance at 31 December 2021	**5,959,840**
Accumulated depreciation and impairment	
Balance at 1 January 2020	**(4,748,089)**
Depreciation for the year	(168,483)
Disposals	39,869
Recovery of impairment	435,301
Balance at 31 December 2020	**(4,441,402)**
Depreciation for the year	(236,477)
Disposals	22,324
Balance at 31 December 2021	**(4,655,555)**
Carrying amount	
At 31 December 2019	**1,101,396**
At 31 December 2020	**1,508,569**
At 31 December 2021	**1,304,285**

The total depreciation amounting to AMD 236,477 thousand (2020: AMD 168,483 thousand) is charged to cost of sales, refer to Note 19.

10 Loans issued

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

In thousands of Armenian Drams		**2021**	**2020**
Loans issued denominated in:	- US Dollars	12,139,350	7,147,550
	- Armenian Drams	343,124	218,515
Total loans issued – before the credit loss allowance		**12,482,474**	**7,366,065**
Less credit loss allowance		(1,527,112)	(1,141,436)
Total loans issued		**10,955,362**	**6,224,629**

As of 31 December 2021 and 31 December 2020 all loans were issued to the immediate parent company under several loan agreements. Contract maturity terms of the loans issued are from December 2023 till December 2029 depending on the agreement. Several loan agreements are interest-free – so the nominal amounts the loans were discounted from maturity dates by 8% for USD-nominated loans and 13% for AMD-nominated loans. The total effect of the fair value adjustment at recognition amounted to AMD 2,292,170 thousand (2020: AMD 1,141,436 thousand) The table above reflects discounted amounts.

One of the loans issued in 2020 was provided on a non-cash basis – loan issued was recognized in amount of AMD 3,290,311 thousand based on loan contract signed with the immediate parent company – the latter agreed to repay USD 10,000 thousand to the Company till 2026. The Company recognized discounted amount of the loan.

10 Loans issued (Continued)

Expected credit loss allowance for the loans issued is equal to AMD 1,527,112 (2020: AMD 1,141,436 thousand) thousand and it was estimated as 12.24% (2020: 16.15%) from the carrying amounts of the loans based on discounted cash-flow method of valuation. 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.

11 Inventories

In thousands of Armenian Drams	**2021**	**2020**
Materials and spare parts	727,618	661,463
Goods for resale	272,589	228,004
Fuel	60,237	47,754
Cards	24,073	29,005
Other	77,687	31,384
Write-down of inventories	(730,711)	(773,779)
Total inventories	**431,493**	**223,831**

12 Trade and Other Receivables

In thousands of Armenian Drams	**2021**	**2020**
Trade receivables	6,266,341	4,698,534
Other financial receivables	438,998	374,596
Less credit loss allowance	(2,163,572)	(2,445,481)
Total financial assets within trade and other receivables	**4,541,767**	**2,627,649**
Other receivables	65,443	166,702
Prepayments	1,128,971	687,402
Less impairment provision	(25,690)	(3,999)
Total trade and other receivables	**5,710,491**	**3,477,754**

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:

12 Trade and Other Receivables (Continued)

In thousands of Armenian Drams	2021 Trade receivables	2021 Other financial receivables	2020 Trade receivables	2020 Other financial receivables
Allowance for credit losses at 1 January	**2,129,710**	**315,771**	**2,149,683**	**254,121**
New originated	507,559	-	275,803	61,650
Net of AR derecognition and cash collection	(557,935)	(231,533)	(295,776)	-
Allowance for credit losses at 31 December	**2,079,334**	**84,238**	**2,129,710**	**315,771**

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.

In thousands of Armenian Drams	Current	1-30 days	31-60 days	61-90 days	91-120 days	Over 121 days	Total
Trade receivables, gross	3,612,786	434,576	301,742	229,154	239,883	1,448,200	6,266,341
Expected loss rate, %	5%	17%	44%	45%	56%	100%	
Expected credit losses	(189,069)	(72,564)	(131,424)	(103,842)	(134,235)	(1,448,200)	(2,079,334)
Total trade receivables, net	**3,423,717**	**362,012**	**170,318**	**125,312**	**105,648**	**-**	**4,187,007**

In 2021 the Company provided internet traffic services to one of the customers in total amount of AMD 1,685,864 thousand (amount to be paid in USD and EUR). In December 2021 the Company and the customer agreed that the payment terms of full amount of 2021 revenue should be within 2022. Due to that the receivables were discounted. The initial effect of discounting was AMD 196,282 thousand with effect of unwinding in 2021 in amount of AMD 15,617 thousand (Note 24). The Company estimated ECL on these receivables using scenario approach required by IFRS 9. Amounts of discounted receivables and ECL are included in Current part of Trade receivables in the table above.

Information on collection of these receivables is presented in Note 34.

The provision matrix as at 31 December 2020 is presented below:

In thousands of Armenian Drams	Current	1-30 days	31-60 days	61-90 days	91-120 days	Over 121 days	Total
Trade receivables, gross	2,131,476	422,090	136,721	78,831	57,245	1,872,171	4,698,534
Expected loss rate, %	2%	12%	42%	68%	85%	100%	
Expected credit losses	(47,633)	(50,286)	(57,566)	(53,405)	(48,649)	(1,872,171)	(2,129,710)
Total trade receivables, net	**2,083,843**	**371,804**	**79,155**	**25,426**	**8,596**	**-**	**2,568,824**

Trade and other financial receivables of AMD 2,599,252 thousand (2020: AMD 1,200,440 thousand) are denominated in foreign currency, 78% in US Dollars (2020: 74%), 15% in Special Drawing Rights-SDR (2020: 24%) and 5% in Euros (2020: 2%).

13 Cash and Cash Equivalents

In thousands of Armenian Drams	2021	2020
Bank balances payable on demand	1,364,480	123,181
Cash in transit	74,583	75,455
Cash on hand	27,997	16,890
Total cash and cash equivalents	**1,467,060**	**215,526**

Bank balances payable on demand are held at Top 10 Armenian banks, classified as current, and not impaired (2020: Top 10 Armenian banks, current and not impaired). The information on interest rates is presented in Note 28.

The Company classifies loans issued to the immediate parent within financing cash flows in the Statement of cashflows because of financing attracted by the parent company in 2020 and providing loans to the parent company to service that financing.

The table below discloses the credit quality of bank balances based on credit risk grades at 31 December 2021 and 31 December 2020.

In thousands of Armenian Drams	31 December 2021	31 December 2020
S&P Global Ratings B+	1,337,384	34,815
Not rated	27,096	88,366
Total bank balances	**1,364,480**	**123,181**

14 Share Capital

In thousands of Armenian Drams	Number of outstanding shares	Ordinary shares	Total
At 1 January 2020	**188,377,090**	**18,837,709**	**18,837,709**
At 31 December 2020	**188,377,090**	**18,837,709**	**18,837,709**
At 31 December 2021	**188,377,090**	**18,837,709**	**18,837,709**

Dividends declared and paid during the year were as follows:

In thousands of Armenian Drams	2021 Ordinary shares	2020 Ordinary shares
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	-	18,810,000
Dividends paid during the year	-	(18,810,000)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**-**	**0.100**

14 Share Capital (Continued)

The total authorised number of ordinary shares is 188,377 thousand shares (2020: 188,377 thousand shares) with a par value of AMD 100 per share (2020: AMD 100 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

15 Provisions for Asset Retirement Obligations

The Company has a legal obligation to dismantle equipment and restore leased 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 2020	**1,153,369**
Unwinding of the present value discount	128,792
Changes in estimates adjusted against property, plant and equipment	10,794
Carrying amount at 31 December 2020	**1,292,925**
Unwinding of the present value discount	143,601
Carrying amount at 31 December 2021	**1,436,526**

16 Trade and Other Financial Payables

In thousands of Armenian Drams	**2021**	**2020**
Payables in respect of acquired services	3,713,031	3,442,169
Payables in respect of purchased equipment	1,384,068	1,161,827
Payables in respect of construction works	584,130	406,603
Payables in respect of roaming services	516,023	399,679
Payables in respect of purchased inventory	357,128	246,998
Payables in respect of purchased intangible assets	193,555	513,059
Accrued professional services	31,200	21,200
Other payables	858	975
Lease liabilities	-	116,532
Total trade and other financial payables	**6,779,993**	**6,309,042**

Advances received as of 31 December 2021 amounted to AMD 2,857,931 thousand (2020: AMD 671,894 thousand). Part of those advances were received from related parties (Note 33).

Trade payables of AMD 3,447,322 thousand (2020: AMD 3,246,933 thousand) are denominated in foreign currency, mainly 74% in US Dollars (2020: 87%), 7% in SDR (2020: 6%), 18% in Euros (2020: 6%) and 1% in Russian Roubles (2020: 2%).

17 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 2020	**54,825**	**852,496**	**907,321**
Payments from reserve	(5,199)	-	(5,199)
Derecognition	(48,824)	(852,496)	(901,320)
Carrying amount at 31 December 2020	**802**	**-**	**802**
Additions charged to profit or loss	65,920	121,334	187,254
Payments from reserve	(859)	-	(859)
Derecognition	-	-	-
Carrying amount at 31 December 2021	**65,863**	**121,334**	**187,197**

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.

Tax risks. Tax risks provision origination in 2021 is connected with penalties arised due to tax reports corrections.

18 Revenue

In thousands of Armenian Drams	2021	2020
Mobile services – data exchange	7,243,249	6,229,895
Mobile services – voice	4,265,245	4,974,505
Mobile services – interconnect	2,181,017	2,103,498
Mobile services – roaming	799,185	313,416
Mobile services – other	1,038,150	1,190,173
Revenue from mobile communication services	**15,526,846**	**14,811,487**
Landline services – voice	4,535,851	5,155,973
Landline services – internet	4,862,717	4,828,506
Landline services – transit	2,732,522	985,260
Landline services – interconnect	199,799	280,641
Landline services – other	1,366,704	1,019,375
Revenue from fixed communication services	**13,697,593**	**12,269,755**
Equipment – mobile services	2,288,897	2,220,578
Equipment – landline telephony services	61,072	124,260
Revenue from sale of equipment	**2,349,969**	**2,344,838**
Other revenue	136,106	115,017
Total revenues	**31,710,514**	**29,541,097**

19 Cost of Sales

In thousands of Armenian Drams	2021	2020
Cost of services provided		
Depreciation and amortisation	7,100,720	8,058,727
Staff costs	3,160,653	3,019,235
Cost of mobile interconnection services	1,954,405	1,647,703
Frequency permission fees	1,793,975	1,793,975
Electricity	1,364,620	1,264,557
Internet and other communication	1,280,761	1,371,095
Equipment maintenance and communications line costs	1,021,129	854,074
Cost of landline interconnection services	745,669	759,150
Costs for roaming services	377,253	281,455
Fuel	135,243	104,137
VAT for services	47,865	5,954
SIM cards	30,659	26,221
Business trips and training	17,050	17,140
Rental of vehicles	16,450	-
Other services of mobile network	144,933	231,382
Other services of landline network	199,573	223,108
(Reversal of) / recognition of obsolescence provision	(50,123)	374,758
Reversal of impairment of non-current non-financial assets	-	(5,061,429)
Total cost of services provided	**19,340,835**	**14,971,242**
Cost of equipment sold		
Equipment – mobile services	2,234,874	2,217,649
Equipment – landline telephony services	11,422	2,503
Total cost of equipment sold	**2,246,296**	**2,220,152**
Total cost of sales	**21,587,131**	**17,191,394**

20 Other Operating Income

In thousands of Armenian Drams	2021	2020
Gains on disposal of property, plant and equipment	1,320,065	191,310
Change on expected credit losses on loans issued	297,183	-
Foreign exchange gains less loses from operating activity	165,363	-
Income from leases	72,201	45,633
Income from write-off of prepayments received and trade payables	35,861	137,796
Income from penalties	234	27,712
Income from consulting and other professional services	-	76,817
Income from provisions derecognition	-	849,751
Other	62,851	10,897
Total other operating income	**1,953,758**	**1,339,946**

21 General and Administrative Expenses

In thousands of Armenian Drams	2021	2020
Staff costs	2,047,815	2,954,874
Professional services	661,712	2,393,528
Office and utility expenses	239,606	325,002
Depreciation and amortisation	179,823	120,605
Repair and maintenance expenses	88,054	43,601
Non-refundable taxes	*72,983*	87,612
Security expenses	53,677	221,687
Representative costs	44,428	8,865
Business trip and training costs	26,679	29,692
Insurance	24,189	50,740
Impairment / (reversal of impairment) of non-financial assets	164	(217,774)
Other	46,999	17,538
Total general and administrative expenses	**3,486,129**	**6,035,970**

Staff costs in the table above include termination benefits amounting AMD 39,934 thousand (2020: AMD 249,629 thousand) related to the management resignations.

Termination benefit expenses are also included in Cost of sales (see Note 19) is AMD 73,711 thousand (2020: AMD 71,256 thousand) and in Distribution expenses (see Note 22) is AMD 10,117 thousand (2020: AMD 38,724 thousand) correspondingly.

22 Distribution Expenses

In thousands of Armenian Drams	2021	2020
Staff costs	2,064,904	2,126,093
Advertising and marketing	431,542	573,540
Collection expenses	308,611	341,677
Cost of scratch cards	21,919	92,506
Other expenses	232,949	159,931
Total distribution expenses	**3,059,925**	**3,293,747**

23 Other Operating Expenses

In thousands of Armenian Drams	2021	2020
Expected credit losses and impairment of trade and other receivables	241,419	258,803
Tax penalty provision	121,344	-
Claims expenses	65,920	-
Losses on sale of inventories	49,321	67,767
Other non-recoverable taxes	44,588	92,587
Charity and sponsorship	32,600	149,983
Unrecoverable VAT	29,335	54,805
Staff costs	5,000	5,000
Write-down of inventories	76	1,940
Depreciation and amortisation	6	85
Losses on disposal of property, plant and equipment	-	250,268
Other expenses	157,749	128,068
Total other operating expenses	**747,358**	**1,009,306**

24 Finance Income/costs

Finance Income

In thousands of Armenian Drams	2021	2020
Amortization of financial guarantees	760,845	-
Interest income on loans issued	744,769	241,142
Unwinding of discount previously recognized	15,617	-
Interest income from cash and cash equivalents	3,075	128,192
Total finance income recognised in profit or loss	**1,524,306**	**369,334**

Finance costs

In thousands of Armenian Drams	2021	2020
Interest expense on loans received	529,431	84,067
Interest expense on lease	469,153	500,685
Discounting of financial receivables	196,282	-
Interest expense on ARO	143,601	128,792
Total finance costs	**1,338,467**	**713,544**
Less capitalised finance costs	(117,493)	-
Total finance costs recognised in profit or loss	**1,220,974**	**713,544**

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 8.63% (2020: Nil).

25 Income Taxes

(a) Components of income tax expense

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

In thousands of Armenian Drams	2021	2020
Deferred tax	993,105	1,209,746
Current tax	-	-
Income tax expense for the year	**993,105**	**1,209,746**

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

The income tax rate applicable to the Company's 2021 and 2020 income is 18%. A reconciliation between the expected and the actual taxation charge is provided below.

25 Income Taxes (Continued)

In thousands of Armenian Drams	2021	2020
Profit before tax	**4,462,002**	**3,499,565**
Theoretical tax charge at statutory rate of 18%	(803,160)	(629,922)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	341,057	451,139
- Non-deductible expenses	(531,002)	(1,030,963)
Income tax expense for the year	**(993,105)**	**(1,209,746)**

As of 31 December 2021 the Company had current income tax prepayments in amount of AMD 248,075 thousand (2020: AMD 707,496 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 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 revenues	11,280	495	-	11,775
Accounts payable	126,460	(69,697)	-	56,763
Provisions	-	-	-	-
Prepayments received	-	-	-	-
Financial instruments and guarantees	-	(197,239)	506,125	308,887
Tax losses	439,989	(236,223)		203,766
Net deferred tax asset	**4,736,632**	**(993,105)**	**506,125**	**4,249,652**

According to the legislation of Armenia tax losses will expire in 2025.

25 Income Taxes (Continued)

The tax effect of the movements in these temporary differences for the year ended 31 December 2020 is detailed below:

In thousands of Armenian Drams	**1 January 2020**	**(Charged)/ credited to profit or loss**	**31 December 2020**
Tax effect of temporary differences			
Property, plant and equipment	4,109,793	(1,391,413)	2,718,380
Intangible assets	363,805	(122,579)	241,226
Leasehold improvements	352,664	(105,293)	247,371
Provision for inventories	(5)	4	(1)
Deferred expenses	(62,564)	13,758	(48,806)
Right-of-use assets and lease liabilities	59,259	28,350	87,609
Impairment provision for receivables	684,017	(3,620)	680,397
Assets retirement obligation	207,606	25,121	232,727
Deferred revenues	5,675	5,605	11,280
Accounts payable	230,453	(103,993)	126,460
Provisions	10,357	(10,357)	-
Prepayments received	(14,682)	14,682	-
Tax losses	-	439,989	439,989
Net deferred tax asset	**5,946,378**	**(1,209,746)**	**4,736,632**

26 Rights-of-use assets and lease obligations

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 but may have extension options.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Company.

In thousands of Armenian Drams	**Land**	**Buildings**	**Total**
Carrying amount at 1 January 2020	**598,303**	**4,277,994**	**4,876,297**
Additions	10,836	797,413	**808,249**
Disposals	(11,346)	(76,207)	**(87,553)**
Depreciation charge	(88,052)	(1,151,052)	**(1,239,104)**
Carrying amount at 31 December 2020	**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**

26 Rights of use assets and lease obligation (Continued)

The Company recognized lease liabilities as follows:

In thousands of Armenian drams	31 December 2021	31 December 2020
Short-term lease liabilities	1,373,865	1,060,540
Long-term lease liabilities	3,100,899	3,784,065
Total lease liabilities	**4,474,764**	**4,844,605**

Interest expense included in finance costs of 2021 was AMD 469,153 (2020: AMD 500,683 thousand). Total cash outflow for leases in 2021 was AMD 1,274,500 thousand (2020: AMD 1,408,686 thousand).

27 Bank loans

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

In thousands of Armenian Drams	2021	2020
Borrowings denominated in:		
- US Dollars	8,333,956	4,077,516
- Armenian Drams	330,940	880,457
Total borrowings at 31 December	**8,664,896**	**4,957,973**

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	
In thousands of Armenian Drams	2021	2020
Bank loan with maturity May 2024 and interest rate 7.5%	3,365,881	-
Bank loan with maturity October 2028 and interest rate 8%	2,452,120	-
Bank loan with maturity November 2027 and interest rate 8%	1,915,310	4,077,516
Bank loan with maturity December 2026 and interest rate 7.5%	600,644	-
Bank loan with maturity December 2028 and interest rate 13%	330,941	-
Bank loan with maturity June 2021 and interest rate 11%	-	880,457
Total borrowings at 31 December	**8,664,896**	**4,957,973**

The carrying amounts of the borrowings approximate their fair values as at 31 December 2020.

As of 31 December 2021 the Company pledged buildings with net book value AMD 125,922 thousand (2020: AMD 110,940 thousand) as a security for the bank loan with AMD 7,733,311 (2020: AMD 4,077,516) outstanding balance as of that date.

27 Bank loans (Continued)

The carrying amounts of the borrowings approximate their fair values as at 31 December 2021 and 31 December 2020.

As of 31 December 2021 the Company pledged buildings with net book value AMD 125,922 thousand (2020: AMD 110,940 thousand) as a security for the bank loan with AMD 7,733,311 (2020: AMD 4,077,516) outstanding balance as of that date.

Compliance with covenants. The Company is subject to certain covenants related primarily to its Loans. The Company was not in compliance with specific covenants at 31 December 2021. Total amount of Company's loans with covenants breached at 31 December 2021 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 is 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.

Certain items of property required by the bank to be pledged were not registered as a collateral. The bank agreed to extend the deadline for registration of collateral until 30 June 2022.

28 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.

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 (2020: AMD 1,603,356 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 2021, the Company has contractual capital expenditure commitments in respect of property, plant and equipment amounting to AMD 2,606,974 thousand (2020: AMD 495,231 thousand). 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.

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.

28 Contingencies and Commitments (Continued)

Guarantees. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. 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 ot the guarantee recognized by the Company as of 31 December 2021 equals to AMD 1,907,669 thousand (2020: AMD 2,668,514 thousand). As of 31 December 2021 the Company was not in compliance with covenants stipulated in the loan contract and agreed a waiver with the bank in 2021. As of 31 December 2020 the Company and TEAM LLC were in compliance with covenant terms stipulated by the loan contract. As of 31 Dcemeber 2021 and 31 December 2020 current portion of the guarantee was AMD 390,514 thousand.

Value of ECL of the guarantee is calculated as 12.24% (2020: 16,15%) - defined based on future cash-flows and scenario analysis - of guaranteed amount's ending balance (31 December 2021: AMD 10,851,434 thousand, 31 December 2020: AMD 16,521,400 thousand). Key accounting judgements in relation to financial guarantee and sensitivity analysis are disclosed in Note 4. Recognized value of guarantee was split between current and non-current portions in accordance with the payment schedule of the loan.

Pledges. The Company pledged property with net book value of AMD 125,922 thousand (AMD 110,940 thousand) as a security for own bank loans (Note 27). The Company also pledged property with net book value of AMD 546,739 thousand as a security for the bank loan received by its immediate parent company with outstanding debt amount of AMD 10,851,434 thousand. 100% of the Company's shares were also pledged by the immediate parent company as a security for the same bank loan.

29 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.

29 Financial Risk Management (Continued)

The following table provides financial assets and liabilities categories as of 31 December 2020:

In thousands of Armenian Drams	2021	2020
Assets		
Loans issued (Note 10)	10,955,362	6,224,629
Trade and other receivables (Note 12)		
- Trade receivables, net	4,187,007	2,568,824
- Other financial receivables, net	354,760	58,825
Cash and cash equivalents (Note 13)		
- Bank balances payable on demand	1,364,480	123,181
- Cash in transit	74,583	75,455
- Cash on hand	27,997	16,890
Total balance sheet exposure to credit risk	**16,964,189**	**9,067,804**
Guarantees provided (Note 28)	10,851,434	16,521,400
Total exposure to credit risk	**27,815,623**	**25,589,204**

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 groups 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 12.

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.

Credit risks concentration. The Company is exposed to concentrations of credit risk. At 31 December 2021 the Company had four counterparties (2020: four counterparties) with aggregated receivables balances above AMD 100,000 thousand. The total amount of these balances was AMD 2,714,811 thousand (2020: AMD 615,682 thousand).

The Company is also exposed to concentration of credit risk due to guarantee issued to the immediate parent company. Amount of debt as of 31 December 2021 guaranteed by the Company was AMD 10,851,434 thousand (2020: AMD 16,521,400 thousand) (Note 28).

29 Financial Risk Management (Continued)

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 sets limits on the level of exposure by currency and in total. The positions are monitored monthly. The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2021			At 31 December 2020		
In thousands of Armenian Drams	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollars	13,835,200	(12,777,210)	1,057,990	7,076,522	(9,639,310)	(2,562,788)
Euros	169,405	(630,425)	(461,020)	23,596	(199,315)	(175,720)
SDR	383,063	(246,661)	136,402	291,092	(181,355)	109,736
Russian Roubles	2,489	(34,650)	(32,161)	2,446	(54,547)	(52,101)
GBP	36,104	-	36,104			
Total	**14,426,261**	**(13,688,946)**	**737,315**	**7,393,656**	**(10,074,527)**	**(2,680,871)**

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 2021**	**At 31 December 2020**
US Dollar strengthening by 5% (2020: strengthening by 5%)	52,900	(128,139)
US Dollar weakening by 5% (2020: weakening by 5%)	(52,900)	128,139
Euro strengthening by 5% (2020: strengthening by 5%)	(23,051)	(8,786)
Euro weakening by 5% (2020: weakening by 5%)	23,051	8,786
SDR strengthening by 5% (2020: strengthening by 5%)	6,820	5,487
SDR weakening by 5% (2020: weakening by 5%)	(6,820)	(5,487)
Russian Rouble strengthening by 15% (2020: strengthening by 15%)	(4,824)	(7,815)
Russian Rouble weakening by 15% (2020: weakening by 15%)	4,824	7,815
GBP strengthening by 5%	(1,805)	-
GBP weakening by 5%	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. Management believes that the Company has no significant exposure to interest rate risk, as financial assets and liabilities of the Company as of 31 December 2021 and 2020 had fixed interest rates.

The Company does not have formal policies and procedures in place for the management of interest rate risks as management considers this risk as insignificant to the Company's business.

29 Financial Risk Management (Continued)

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

	2021		2020	
In % p.a.	AMD	USD	AMD	USD
Assets				
Cash and cash equivalents	0-6	0-1	0-6	0-1
Borrowings provided	13	8	0	0-8

The sign "-" in the table above means that the Company does not have the respective assets or liabilities in the corresponding currency.

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 13).

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 2021 is as follows:

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 12 month	Over 12 months	Total
Liabilities				
Bank loans received (Note 27)	3,929	624,575	8,036,392	8,664,896
Guarantees provided (Note 28)	10,851,434	-	-	10,851,434
Trade and other financial payables (Note 16)	285,425	6,494,568	-	6,779,993
Lease Liabilities (Note 26)	125,182	963,656	4,779,878	5,868,716
Total future payments	**11,265,970**	**8,082,799**	**12,816,270**	**32,165,039**

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.

The maturity analysis of financial liabilities at 31 December 2020 is as follows:

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 12 month	Over 12 months	Total
Bank loans received (Note 27)	53,163	1,709,711	4,348,096	6,110,970
Guarantees provided (Note 28)	16,521,400	-	-	16,521,400
Trade and other financial payables (Note 16)	731,734	5,577,308	-	6,309,042
Lease Liabilities (Note 26)	136,681	1,277,932	5,670,241	7,084,854
Total future payments	**17,442,978**	**8,564,951**	**10,018,337**	**36,026,266**

30 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 2021 was AMD 23,859,064 thousand (2020: AMD 22,176,212 thousand).

31 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.

(b) Non-recurring fair value measurements

The Company has recognized guarantee issued for the related party at fair value. The fair value belongs to level 3 measurements in the fair value hierarchy. The valuation technique and inputs used in the fair value measurement at the recognition date were as follows:

	Fair value	Valuation technique	Inputs used	Inputs 31 Dec 2021
Guarantee issued for the related party (ECL assessment as of 31 December 2021)	1,328,566	Discounted cash flows ("DCF")	Discount rate	8.0%
			Free cash flows in 2022-2030	From AMD (1,096,715) thousand to AMD 938,621 thousand

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.

32 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

32 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2021:

In thousands of Armenian Drams	2021 At amortized cost	2020 At amortized cost
Assets		
Loans issued (Note 10)	10,955,362	6,224,629
Trade and other receivables (Note 12)		
- Trade receivables, net	4,187,007	2,568,824
- Other financial receivables, net	354,760	58,825
Cash and cash equivalents (Note 13)		
- Bank balances payable on demand	1,364,480	123,181
- Cash in transit	74,583	75,455
- Cash on hand	27,997	16,890
Total financial assets	**16,964,189**	**9,067,804**

33 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 2021, the outstanding balances with related parties were as follows:

In thousands of Armenian Drams	Immediate parent company	Entities under common control
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
Guarantees provided	10,851,434	-
Prepayments received	-	1,844,005
Trade and other payables	80	218,854

At 31 December 2020, the outstanding balances with related parties were as follows:

In thousands of Armenian Drams	Immediate parent company	Entities under common control
Loans issued (contractual interest rate 8%)	2,645,898	-
Loans issued (contractual interest rate 0%)	3,364,531	-
Prepayments for current assets	444,687	-
Guarantees provided	16,521,400	-
Prepayments for non-current assets	-	31,377

33 Balances and Transactions with Related Parties (Continued)

The income and expense items as will 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
Purchases of services	261,784	25,120
Management fees	256,667	-
Services provided	4,234	7,142
Interest income	357,216	-
Loans issued in cash	7,537,928	-

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 28).

The income and expense items as will as other transactions with related parties for the year ended 31 December 2020 were as follows:

In thousands of Armenian Drams	Immediate parent company	Entities under common control
Purchases of connection services (Interconnect, roaming, internet)	1,152,396	260,097
Connection services provided (Interconnect, roaming, internet)	1,016,122	167,328
Interest income	40,594	200,548
Loans issued in cash	3,642,338	-
Loans issued non-cash	5,141,300	-
Distribution to the previous owner	4,927,100	-
Dividends paid	18,810,000	-

Related party transactions have been performed by the Company on arms-length basis, except for the certain loans issued and guarantees provided transactions (Note 10, 28).

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

Key management compensation is presented below:

	2021		2020	
In thousands of Armenian Drams	Expense	Net accrued liability	Expense	Net accrued liability
Short-term benefits:				
- Salaries	499,088	52,422	522,007	18,216
- Short-term bonuses	-	-	381,201	-
Termination benefits	-	-	186,732	-
Business trip and representative costs	20,648	-	-	-
Total	**519,736**	**52,422**	**1,089,939**	**18,216**

34 Events after the Reporting Period

Loans received. In March 2022 the Company received a loan from a local bank. The loan is nominated in USD and equals to AMD 623,800 thousand (USD 1,250 thousand) at the rate applicable on the loan contract date. Loan maturity is June 2022. By this new loan was early and fully repaid another local bank loan with maturity December 2026.

On 26 May 2022 Company signed USD nominated senior term loan agreements with maturity of 7 years in total amount of AMD 20,122,650 thousand 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.

Rebranding. The Company has officially completed its rebranding process in May 2022 replacing "Beeline" brand name with "Team" brand.

Receivable from internet traffic services. In May 2022 the payments of receivable was received in amount of AMD 684,475 thousand. Information on these receivables is presented in Note 12.