

International Energy Corporation CJSC

Financial Statements for 2021

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

Independent Auditors' Report

To the Shareholder of International Energy Corporation CJSC

Opinion

We have audited the financial statements of International Energy Corporation CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



Tigran Gasparian
Managing Partner, Director of KPMG Armenia

KPMG Armenia LLC

KPMG Armenia LLC
29 June 2022




Statement of Financial Position as at 31 December 2021

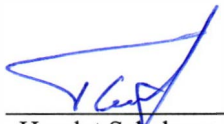
'000 AMD	Note	31 December 2021	31 December 2020
Assets			
Property, plant and equipment	11	35,138,300	28,641,069
Intangible assets		12,141	10,986
Prepayments for non-current assets		703,002	316,734
Non-current assets		35,853,443	28,968,789
Inventories	12	470,190	463,199
Trade and other receivables	13	720,728	807,303
Current tax asset	10	98,750	-
Assets held for sale		4,224	-
Bank deposits	14	454,864	151,660
Cash and cash equivalents	15	1,394,963	314,429
Current assets		3,143,719	1,736,591
Total assets		38,997,162	30,705,380
Equity			
Share capital	16	4,560,650	585,650
Additional paid in capital	16	-	61,188
Revaluation surplus	16	22,417,102	22,428,761
Accumulated losses		(14,960,426)	(19,658,051)
Total equity		12,017,326	3,417,548
Liabilities			
Loans and borrowings	17	17,095,854	2,017,786
Deferred tax liabilities	10	213,198	137,652
Non-current liabilities		17,309,052	2,155,438
Loans and borrowings	17	2,987,708	23,096,167
Trade and other payables	18	6,683,076	2,035,723
Current tax liability		-	504
Current liabilities		9,670,784	25,132,394
Total liabilities		26,979,836	27,287,832
Total equity and liabilities		38,997,162	30,705,380

Statement of Profit or Loss and Other Comprehensive Income for 2021

'000 AMD	Note	2021	2020
Revenue	5	7,070,467	6,283,329
Cost of sales	6	(3,603,180)	(2,641,883)
Gross profit		3,467,287	3,641,446
Other income		110,474	101,610
Administrative expenses	7	(1,021,028)	(1,009,059)
Other expenses	8	(303,035)	(352,912)
Impairment loss on trade and other receivables		50	(85)
Results from operating activities		2,253,748	2,381,000
Finance income	9	3,850,106	30,412
Finance costs	9	(1,383,643)	(5,485,969)
Profit/(loss) before income tax		4,720,211	(3,074,557)
Income tax expense	10	(95,433)	(429,870)
Profit/(loss) for the year		4,624,778	(3,504,427)
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss</i>			
Revaluation of property, plant and equipment	11	-	2,719,556
Related income tax	10	-	(489,520)
Other comprehensive income, net of income tax		-	2,230,036
Total comprehensive income/(loss) for the year		4,624,778	(1,274,391)

These financial statements were approved by management on 29 June 2022 and were signed on its behalf by:


Artashes Kirakosyan
General Director


Hamlet Sahakyan
Chief Accountant

Statement of Changes in Equity for 2021

'000 AMD	Share capital	Additional paid in capital	Property, plant and equipment revaluation surplus	Accumulated losses	Total
Balance at 1 January 2020	585,650	-	20,198,725	(16,153,624)	4,630,751
Total comprehensive income for the year					
Loss for the year	-	-	-	(3,504,427)	(3,504,427)
Other comprehensive income					
Revaluation of property, plant and equipment	-	-	2,230,036	-	2,230,036
Total comprehensive (loss)/income	-	-	2,230,036	(3,504,427)	(1,274,391)
Transactions with owners of the Company					
Contributions and distributions					
Other contributions and distributions	-	61,188	-	-	61,188
Total transactions with owners	-	61,188	-	-	61,188
Balance at 31 December 2020	585,650	61,188	22,428,761	(19,658,051)	3,417,548
Balance at 1 January 2021	585,650	61,188	22,428,761	(19,658,051)	3,417,548
Total comprehensive income for the year					
Profit for the year	-	-	-	4,624,778	4,624,778
Other comprehensive income					
Disposal of revalued property, plant and equipment	-	-	(11,659)	11,659	-
Total comprehensive (loss)/income	-	-	(11,659)	4,636,437	4,624,778
Transactions with owners of the Company					
Issue of shares	3,975,000	-	-	-	3,975,000
Other contributions and distributions	-	(61,188)	-	61,188	-
Total transactions with owners	3,975,000	(61,188)	-	61,188	3,975,000
Balance at 31 December 2021	4,560,650	-	22,417,102	(14,960,426)	12,017,326

Statement of Cash Flows for 2021

AMD'000	2021	2020
Cash flows from operating activities		
Profit/(loss) for the year	4,624,778	(3,504,427)
<i>Adjustments for:</i>		
Depreciation and amortization	1,783,338	1,260,821
Revaluation of property, plant and equipment	-	223,268
Other non-cash incomes	-	(49,542)
Impairment losses on trade and other receivables	50	85
Net finance costs	(2,466,463)	5,455,557
Income tax expense	95,433	429,870
<i>Changes in:</i>		
Inventories	(6,991)	(18,460)
Trade and other receivables	86,575	(138,719)
Trade and other payables	115,008	512,777
Cash flows from operations before income taxes and interest paid	4,231,728	4,171,230
Income tax paid	(119,142)	(475,630)
Interest paid	(940,443)	(1,284,354)
Cash flows from operating activities	3,172,143	2,411,246
Cash flows from investing activities		
Acquisition of property, plant and equipment	(4,080,154)	(1,379,968)
Proceeds from bank deposits	1,300,000	3,031,270
Placement of bank deposits	(1,600,000)	(2,820,000)
Interest received	20,623	30,280
Cash flows used in investing activities	(4,359,531)	(1,138,418)
Cash flows from financing activities		
Proceeds from the issue of equity capital	3,975,000	-
Proceeds from borrowings	1,586,040	20,578,669
Repayment of borrowings	(3,279,694)	(21,927,271)
Cash flows from/(used in) financing activities	2,281,346	(1,348,602)
Net increase/(decrease) in cash and cash equivalents	1,093,958	(75,774)
Cash and cash equivalents at 1 January	314,429	167,505
Effect of exchange rate fluctuations on cash and cash equivalents	(13,424)	222,698
Cash and cash equivalents at 31 December	1,394,963	314,429

1. Reporting entity

(a) Organisation and operations

International Energy Corporation CJSC (the “Company”) is a closed joint stock company incorporated in the Republic of Armenia.

The Company’s registered office is 2/12 Ghapantsyan Street, Yerevan 0021, Republic of Armenia. The Company’s premises are located in Yerevan, Gegharkunik and Kotyak regions of the Republic of Armenia.

The Company’s principal activity is the generation of electricity at Sevan-Hrazdan cascade (the Cascade) consisting of seven hydro power plants located in the Republic of Armenia in accordance with the License N 0108 effective till 2032. Electricity generated by the Cascade is sold in the Republic of Armenia. Tariffs for sold electricity are determined by the Public Services Regulatory Commission (“PSRC”) of the Republic of Armenia.

At 31 December 2021 and 31 December 2020 the Company is wholly owned by HrazTES OJSC. The Company’s ultimate parent is Tashir Capital CJSC and the ultimate controlling party is a single individual, Mr. Samvel Karapetyan.

In 2021 the Company has received additional capital financing from HrazTES OJSC.

Related party transactions are disclosed in Note 21.

(b) Armenian business environment

The Company’s operations are located in Armenia. Consequently, the Company is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia.

Recent elevation of tensions over Ukraine has further increased the level of economic uncertainties in Armenia.

The financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

2. Basis of accounting

(a) Statement of compliance

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

3. Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram (“AMD”), which is the Company’s functional currency and the currency in which these financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant effect on the amounts recognized in the financial statements is included in Note 11 (a) – revaluation of property, plant and equipment

Measurement of fair values

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in Note 19 – fair values and risk management.

5. Revenue

(a) Revenue streams

The Company generates revenue primarily from the sale of electricity. Other sources of revenue include transmitting services provided and sale of products.

'000 AMD	2021	2020
Revenue from contracts with customers	6,946,553	6,162,486
Other revenue		
Transmitting services	122,226	120,843
Other	1,688	-
Total revenue	7,070,467	6,283,329

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by major service lines and timing of revenue recognition.

'000 AMD	2021	2020
Major service lines		
Electricity produced	2,177,659	1,622,088
Available capacity	4,768,894	4,540,398
Transmitting services	122,226	120,843
Other	1,688	-
	7,070,467	6,283,329
Timing of revenue recognition		
Services transferred over time	7,068,779	6,283,329
Products transferred at a point in time	1,688	-
Revenue from contracts with customers	7,070,467	6,283,329

(c) Performance obligations and revenue recognition policies

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

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

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Sale of electricity	Electricity sales contract revenue is recognized upon delivery of the power to the customer. Invoices for power delivered are issued on a monthly basis and are usually payable within 30 days.	Customers simultaneously receive and consume the benefits of electricity supply as it is provided and the Company transfers control of the service over time, and therefore, satisfies a performance obligation and recognizes revenue over time. The variable consideration, which represents units of consumed electricity multiplied by the effective tariffs, is measured by the data taken from meter readers at the end of each calendar month.
Sale of production capacity	Under this contract the Company has a stand-ready obligation to deliver electricity to the customer when required. Invoices are issued on a monthly basis and are usually payable within 30 days.	Revenue is recognised over time as the services are provided with reference to time elapsed.
Transmitting services	Under this contract the Company transmits electricity to its sole customer's consumers and/or to its customer's other network stations. Invoices are issued on a monthly basis and are usually payable within 30 days.	Customers simultaneously receive and consume the benefits of electricity transmission as it is provided and the Company transfers control of the service over time, and therefore, satisfies a performance obligation and recognizes revenue over time. The variable consideration, which represents units of transmitted electricity multiplied by the effective tariffs, is measured by the data taken from meter readers at the end of each calendar month.

6. Cost of sales

'000 AMD	2021	2020
Depreciation and amortization	1,745,749	1,247,188
Wages and salaries	814,303	818,132
Repair and maintenance services	691,336	225,557
Electricity	230,255	243,045
Materials	117,673	98,843
Rent	2,540	6,046
Other	1,324	3,072
	3,603,180	2,641,883

7. Administrative expenses

'000 AMD	2021	2020
Wages and salaries	419,034	418,668
Security	172,320	172,320
Bank and insurance expense	106,609	227,690
Professional services	98,400	56,522
Repair and maintenance	94,013	19,615
Depreciation and amortization	37,589	13,877
Office and utilities	23,107	22,290
Taxes other than on income	22,721	38,261
Communication	3,840	5,156
Business trip and representative expenses	2,537	6,958
Other	40,858	27,702
	1,021,028	1,009,059

8. Other expenses

'000 AMD	2021	2020
Social expenditures	61,182	78,896
Fines and penalties	1,592	34,491
Property, plant and equipment revaluation loss	-	223,289
Other expenses	240,262	16,236
	303,035	352,912

9. Finance income and finance costs

'000 AMD	2021	2020
Interest income under the effective interest method on:		
Term deposits	23,826	30,412
Total interest income arising from financial assets measured at amortised cost	23,826	30,412
Net foreign exchange gain	3,826,280	-
Financial liabilities measured at amortised cost – interest expense	(1,383,643)	(1,446,078)
Net foreign exchange loss	-	(4,039,891)
Finance costs	(1,383,643)	(5,485,969)
Net finance income/(costs) recognised in profit or loss	2,466,463	(5,455,557)

10. Income tax expense

(a) Amounts recognised in profit or loss

The Company's applicable tax rate is the income tax rate of 18% (2020: 18%) for Armenian companies.

'000 AMD	2021	2020
Current tax expense		
Current year	(19,887)	(161,793)
Over-provided in prior years	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(75,546)	(268,077)
Total income tax expense	(95,433)	(429,870)

(b) Amounts recognised directly in equity

'000 AMD	2021			2020		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Revaluation of property, plant and equipment	-	-	-	22,918,127	(489,520)	22,428,761

Reconciliation of effective tax rate:

	2021		2020	
	'000 AMD	%	'000 AMD	%
Profit/(loss) before income tax	4,720,211		(3,074,557)	
Income tax at applicable tax rate	849,638	18	(553,420)	18
Foreign exchange effect on temporary differences	(125,968)	(2.7)	141,995	(4.6)
Non-deductible expenses	(628,237)	(13.3)	841,295	(27.4)
	95,433	2	429,870	(14)

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
'000 AMD						
Property, plant and equipment	259,657	531,002	-	-	259,657	531,002
Intangible assets	251	280	-	-	251	280
Trade and other receivables	-	-	4,713	(2,132)	4,713	(2,132)
Loans and borrowings	-	-	(682,778)	(884,784)	(682,778)	(884,784)
Trade and other payables	204,959	217,982	-	-	204,959	217,982
Net tax (assets)/ liabilities	464,867	749,264	(678,064)	(886,916)	(213,198)	(137,652)

(d) Movement in temporary differences during the year

	1 January 2021	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2021
'000 AMD				
Property, plant and equipment	531,002	(271,345)	-	259,657
Intangible assets	280	(29)	-	251
Trade and other receivables	(2,132)	6,845	-	4,713
Loans and borrowings	(884,784)	202,006	-	(682,778)
Trade and other payables	217,982	(13,023)	-	204,959
	(137,652)	(75,546)	-	(213,198)

	1 January 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2020
'000 AMD				
Property, plant and equipment	1,122,000	(101,478)	(489,520)	531,002
Intangible assets	297	(17)	-	280
Trade and other receivables	4,707	(6,839)	-	(2,132)
Loans and borrowings	(694,504)	(176,849)	(13,431)	(884,784)
Trade and other payables	200,876	17,106	-	217,982
	633,376	(268,077)	(502,951)	(137,652)

11. Property, plant and equipment

'000 AMD	Land and buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress	Total
Deemed cost						
Balance at 1 January 2020	16,547,853	11,215,776	280,150	64,275	197,830	28,305,884
Additions	-	489,490	168,502	10,693	394,549	1,063,234
Transfers	95,970	214,136	-	-	(310,106)	-
Elimination of accumulated depreciation	(979,849)	(1,935,100)	(263,563)	(45,825)	-	(3,224,337)
Revaluation	814,356	1,523,955	176,095	(18,118)	-	2,496,288
Balance at 31 December 2020	16,478,330	11,508,257	361,184	11,025	282,273	28,641,069
Balance at 1 January 2021	16,478,330	11,508,257	361,184	11,025	282,273	28,641,069
Additions	1,966,451	1,577,255	25,578	27,236	4,692,430	8,288,950
Disposals	-	(3,283)	(1,568)	-	-	(4,851)
Transfers	50,213	4,521,606	4,431	6,538	(4,582,788)	-
Reclassification of assets held for sale	-	-	(6,872)	-	-	(6,872)
Balance at 31 December 2021	18,494,994	17,603,835	382,753	44,799	391,915	36,918,296
Depreciation						
Balance at 1 January 2020	(528,573)	(1,142,401)	(255,772)	(36,770)	-	(1,963,516)
Depreciation for the year	(451,276)	(792,699)	(7,791)	(9,055)	-	(1,260,821)
Elimination of accumulated depreciation	979,849	1,935,100	263,563	45,825	-	3,224,337
Balance at 31 December 2020	-	-	-	-	-	-
Balance at 1 January 2021	-	-	-	-	-	-
Depreciation for the year	(507,389)	(1,191,654)	(76,197)	(6,777)	-	(1,782,017)
Disposals	-	387	261	-	-	648
Reclassification of assets held for sale	-	-	1,373	-	-	1,373
Balance at 31 December 2021	(507,389)	(1,191,267)	(74,563)	(6,777)	-	(1,779,996)
Carrying amounts						
At 1 January 2020	16,019,280	10,073,375	24,378	27,505	197,830	26,342,368
At 31 December 2020	16,478,330	11,508,257	361,184	11,025	282,273	28,641,069
At 31 December 2021	17,987,605	16,412,568	308,190	38,022	391,915	35,138,300
Carrying amounts had no revaluations taken place						
At 1 January 2020	3,399,863	17,679,736	125,768	38,523	197,830	21,441,720
At 31 December 2020	2,589,842	16,289,624	108,750	-	282,273	19,270,490
At 31 December 2021	1,779,821	14,899,513	91,733	-	391,914	17,162,981

(a) Revaluation

The management commissioned A & M Financial Consulting CJSC independently appraise property, plant and equipment as at 31 December 2020. The value of property, plant and equipment was estimated using discounted cash flow approach and determined to be AMD 28,641,069 thousand, which has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used (see Note 4).

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

Consequently, the fair value of property, plant and equipment was primarily determined using discounted cash flow approach. This method considers free cash flows of the company to estimate enterprise value and make required adjustments (i.e. book value of net working capital and other operating long-term assets) to arrive to the property, plant and equipment value.

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

- Cash flows were projected based on past experience, actual operating results and the Company's twenty-four-year business plan. The business plan period was determined with reference to tariff formulation methodology as published by PSRC according to which the investments made by the Company are compensated on average for 25 years.
- The anticipated sales included in the cash flow projections was estimated with reference to the tariff formulation methodology as published by the PSRC.
- Revenue and expenses were adjusted for respective inflation rates.
- A discount rate of 10.57% was applied. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 39.05% at a market interest rate of 8%.
- A terminal value was derived at the end of a 24-year period. A terminal rate of 0% was considered in estimating the terminal value for the plants.

The estimated discounted amount of future cash flows is greater than the carrying amount of property, plant and equipment by approximately AMD 2,521,958 thousand. The above estimates are particularly sensitive in the following area:

- An increase of 1% in the discount rate used would have caused the discounted amount of future cash flows to equal to AMD 27,628,779 thousand.

12. Inventories

'000 AMD	2021	2020
Spare parts	297,918	298,672
Materials	97,429	84,810
Other	74,843	79,717
	470,190	463,199

13. Trade and other receivables

'000 AMD	2021	2020
Trade receivables	588,791	613,248
Allowance for impairment of trade receivables	(10,381)	(10,431)
	578,410	602,817
Prepayments given	41,941	43,786
Other taxes receivable	100,377	160,700
Total trade and other receivables	720,728	807,303

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

14. Bank deposits

Term and conditions of outstanding bank deposit were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	2021		2020	
				Face value	Carrying amount	Face value	Carrying amount
Bank deposit	AMD	3.5%	2022	454,864	454,864	-	-
Bank deposit	AMD	6.75%	2021	-	-	151,660	151,660
				454,864	454,864	151,660	151,660

15. Cash and cash equivalents

'000 AMD	2021	2020
Tax Uni-balance	1,228,793	-
Current accounts	166,160	314,429
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	1,394,963	314,429

The Company's exposure to currency and credit risks and impairment losses related to cash and cash equivalents are disclosed in Note 19.

16. Capital and reserves

(a) Share capital

The authorized, issued and fully paid share capital as at 31 December 2021 comprises of 4,560,650 ordinary shares at par value of AMD 1,000 (31 December 2020: 585,650 shares at par value of AMD 1,000).

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

(b) Revaluation surplus

The revaluation surplus relates to the revaluation of property, plant and equipment.

(c) Capital management

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

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

17. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

'000 AMD	2021	2020
Non-current liabilities		
Secured loan from HSBC	14,555,513	-
Secured loan from HSBC	864,252	-
Unsecured loan from the Government of the Republic of Armenia	1,676,089	2,017,786
	17,095,854	2,017,786
Current liabilities		
Secured loan from HSBC	2,025,544	21,963,796
Secured loan from HSBC	578,269	-
Unsecured loan from the Government of the Republic of Armenia	383,895	456,603
Unsecured borrowing from Shareholder	-	675,768
	2,987,708	23,096,167
Total loans and borrowings	20,083,562	25,113,953

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Effective interest rate	Year of maturity	31 December 2021		31 December 2020	
				Face value	Carrying amount	Face value	Carrying amount
Secured loan from HSBC	EUR	4.153%	2020-2025	16,566,868	16,581,057	21,949,336	21,963,796
Secured loan from HSBC	USD	7.50%	2021-2024	1,442,317	1,442,521	-	-
Unsecured loan from the Government of the Republic of Armenia	EUR	18%	2020-2041	5,850,687	2,059,984	7,315,594	2,474,389
Unsecured borrowing from Shareholder	AMD	11.02%	2020-2021	-	-	750,000	675,768
Total loans and borrowings				23,859,872	20,083,562	30,014,930	25,113,953

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

'000 AMD	Liabilities
	Loans and borrowings
Balance at 1 January 2021	25,113,953
Changes from financing cash flows	
Proceeds from borrowings	1,586,040
Repayment of borrowings	(3,279,694)
Total changes from financing cash flows	23,420,299
The effect of changes in foreign exchange rates	(3,749,092)
Other changes	
<i>Liability-related</i>	
Interest expense	1,352,798
Interest paid	(940,443)
Other movement	-
Total liability-related other changes	412,355
Balance at 31 December 2021	20,083,562

'000 AMD	Liabilities
	Loans and borrowings
Balance at 1 January 2020	22,232,391
Changes from financing cash flows	
Proceeds from borrowings	20,578,669
Repayment of borrowings	(21,927,271)
Total changes from financing cash flows	20,883,789
The effect of changes in foreign exchange rates	4,174,015
Other changes	
<i>Liability-related</i>	
Interest expense	1,415,122
Interest paid	(1,284,354)
Other movement	(74,619)
Total liability-related other changes	56,149
Balance at 31 December 2020	25,113,953

18. Trade and other payables

'000 AMD	2021	2020
Trade payables for purchase of property, plant and equipment	5,537,253	947,213
Trade payable	709,556	932,577
Salaries and wages	3,905	3,899
Taxes payable	133,115	72,630
Vacation reserve	299,227	77,853
Other	20	1,551
Total trade and other payables	6,683,076	2,035,723

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

19. Fair values and risk management

(a) Fair values

The management believes that the fair values of the Company's financial assets and liabilities approximate their carrying values.

(b) Financial risk management

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

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

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

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

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

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

Trade receivables

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

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

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

None of the Company's customers have external credit rating. All the balances are from corporate customers and the Company considers that its customers have low credit risk. None of the Company's customer's credit risk had a significant increase since initial recognition.

Expected credit loss assessment for customers

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

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for customers as at 31 December 2021.

31 December 2021 '000 AMD	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	Credit- impaired
Trade receivables and contract assets				
Low risk	0.14%	579,195	(785)	No
Default	100%	9,596	(9,596)	Yes
		588,791	(10,381)	

The Company defines low risk as follows:

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

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2020.

31 December 2020 '000 AMD	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	Credit- impaired
Trade receivables and contract assets				
Low risk	0.14%	603,652	(835)	No
Default	100%	9,596	(9,596)	Yes
		613,248	(10,431)	

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

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

'000 AMD	2021	2020
Balance at 1 January	(10,431)	(10,349)
Net remeasurement of loss allowance	50	(82)
Balance at 31 December	(10,381)	(10,431)

Cash and cash equivalents and bank deposits

The Company held bank balances of AMD 1,849,804 thousand at 31 December 2021 (31 December 2020: AMD 466,089 thousand), which represents its maximum credit exposure on these assets. The Company holds cash and cash equivalents in one of top ten Armenian banks by total assets and the Company does not expect the bank to fail to meet its obligations.

Per Company's assessment no impairment loss is recognised on current account primarily due to their short maturities.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Exposure to liquidity risk

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

31 December 2021

'000 AMD	Carrying amount	Contractual cash flows	On demand and less than 2 months	2-12 months	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities							
Secured bank loans *	18,023,578	19,503,793	23,739	3,160,436	2,511,597	13,808,020	-
Unsecured loans	2,059,984	5,853,602	-	-	381,340	1,128,689	4,343,573
Unsecured borrowing from Shareholder	-	-	-	-	-	-	-
Trade and other payables	6,250,734	6,250,734	6,250,734	-	-	-	-
	26,334,298	31,608,129	6,274,473	3,160,436	2,892,937	14,936,709	4,343,573

31 December 2020

'000 AMD	Carrying amount	Contractual cash flows	On demand and less than 2 months	2-12 months	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities							
Secured bank loans *	21,963,796	24,159,860	-	3,013,960	2,217,030	18,928,870	-
Unsecured loans	2,474,389	7,826,393	-	456,603	453,584	1,342,637	5,573,569
Unsecured borrowing from Shareholder	675,768	750,000	-	750,000	-	-	-
Trade and other payables	1,885,240	1,885,240	1,885,240	-	-	-	-
	26,999,193	34,621,493	1,885,240	4,220,563	2,670,614	20,271,507	5,573,569

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

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk on trade payables and loans and borrowings that are denominated in a currency other than AMD. The currencies in which these transactions primarily are denominated are USD and EUR.

Exposure to currency risk

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

'000 AMD	USD- denominated 2021	EUR- denominated 2021	USD- denominated 2020	EUR- denominated 2020
Trade payables	(1,032,747)	-	(1,124,054)	-
Loans and borrowings	(1,442,521)	(18,641,041)	-	(24,438,185)
Gross exposure	(2,475,268)	(18,641,041)	(1,124,054)	(24,438,185)

The following significant exchange rates applied during the year:

in AMD	Average rate		Reporting date spot rate	
	2021	2020	2021	2020
USD 1	503.20	489.23	480.40	522.59
EUR 1	595.18	559.08	542.61	641.11

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AMD, as indicated below, against the USD and EUR at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss net of taxes by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

'000 AMD	Strengthening Profit or loss	Weakening Profit or loss
31 December 2021		
AMD 10% movement against USD	247,527	(247,527)
AMD 10% movement against EUR	1,864,104	(1,864,104)
31 December 2020		
AMD 10% movement against USD	112,405	(112,405)
AMD 10% movement against EUR	2,443,819	(2,443,819)

Interest rate risk

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

Exposure to interest rate risk

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

'000 AMD	Carrying amount	
	2021	2020
Fixed rate instruments		
Financial liabilities	2,059,984	3,150,157
	2,059,984	3,150,157
Variable rate instruments		
Financial liabilities	18,023,578	21,963,796
	18,023,578	21,963,796

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss net of taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

'000 AMD	Profit or loss	
	100 bp increase	100 bp decrease
2021		
Variable rate instruments	(147,793)	147,793
Cash flow sensitivity (net)	(147,793)	147,793
2020		
Variable rate instruments	(180,103)	180,103
Cash flow sensitivity (net)	(180,103)	180,103

20. Contingencies

(a) Insurance

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

(b) Litigations

The Company does not have litigations that may have a material effect on the Company's financial position.

(c) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

21. Related parties

(a) Control relationships

The Company's sole shareholder starting from 10 March 2020 is HrazTES OJSC. The Company's ultimate parent is Tashir Capital CJSC and the ultimate controlling party is a single individual, Mr. Samvel Karapetyan.

Publicly available financial statements are produced by the Company's parent company.

(b) Transactions with key management personnel

Key management received the following remuneration during the year:

'000 AMD	2021	2020
Salaries and bonuses	141,856	185,454

(c) Other related party transactions

'000 AMD	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2021	2020	2021	2020
Purchase of goods and services				
Entities under common control and related to the shareholder	514,902	613,837	(27,802)	(147,569)
Shareholder	1,470	1,520	-	-
Revenue				
Entities under common control and related to the shareholder	7,070,467	5,482,462	567,382	603,408
Loans and borrowings				
Shareholder	750,000	-	-	675,768

22. Basis of measurement

The financial statements have been prepared on the historical cost basis, except that property, plant and equipment are stated at revalued amounts.

23. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements. A number of amendments to the existing standards are effective from 1 January 2021 but they do not have a material effect on the Company's financial statements.

(a) Revenue

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

(b) Finance income and costs

The Company's finance income and finance costs include:

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

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

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

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

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

(c) Foreign currency transactions

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

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

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognized in profit or loss.

(d) Employee benefits

Short-term benefits

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

(e) Income tax

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

(f) Property, plant and equipment

(i) *Recognition and measurement*

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the property and equipment being revalued. A revaluation increase on property and equipment is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a property and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(ii) *Subsequent expenditure*

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

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

(iii) *Depreciation*

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

- | | |
|------------------------|-------------|
| - buildings | 10-50 years |
| - plant and equipment | 10-50 years |
| - fixture and fittings | 3-10 years |
| - other | 1-5 years |

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

(g) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

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

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) *Modification of financial assets and financial liabilities*

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on the derecognition of financial liabilities.

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

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(h) Share capital

Ordinary shares

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

(i) Impairment

Non-derivative financial assets

Financial instruments

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

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

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

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

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

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(j) Provisions

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

(k) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities separately in the statement of financial position.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

In accordance with IFRS 16 variable payments which do not depend on index or rate, e. g. which do not reflect changes in market rental rates, should not be included in the measurement of lease liability. In respect of municipal or federal land leases where lease payments are based on cadastral value of the land plot and do not change until the next revision of that value or the applicable rates (or both) by the authorities, the Company has determined that, under the current revision mechanism, the land lease payments cannot be considered as either variable that depend on index or rate or in-substance fixed, and therefore these payments are not included in the measurement of the lease liability.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

24. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

(a) Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The Company has determined that all contracts existing at 31 December 2021 will be completed before the amendments become effective.

(b) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

There will be no impact on adoption of the amendments on the Company's financial statements.

(c) Other standards

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

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 *Insurance Contracts* and amendments to IFRS 17 *Insurance Contracts*.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).