

Veolia Djur CJSC

**Financial Statements
for 2022**

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Independent auditor's report

To the Shareholder and Board of Directors of Veolia Djur CJSC

Opinion

We have audited the financial statements of Veolia Djur CJSC (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other matter

The financial statements of the Company for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 30 June 2022.

Responsibilities of management and the Board of Directors for the financial statements

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

In preparing the financial statements, management is responsible for assessing the 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the Board of Directors 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.

Ernst & Young CJSC
Yerevan, Armenia

General Director
Partner (Assurance)



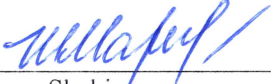
Eric Hayrapetyan

June 30, 2023

Statement of Profit or Loss and Other Comprehensive Income for 2022


'000 AMD	Note	2022	2021
Revenue	5	28,319,512	24,284,225
Cost of sales	6	(16,328,980)	(15,883,312)
Gross profit		11,990,532	8,400,913
Other income		286,964	207,142
Distribution expenses	7	(3,771,832)	(3,531,529)
Administrative expenses	8	(1,989,516)	(1,936,428)
Impairment loss on trade receivables		(695,235)	(1,038,771)
Other expenses		(140,161)	(188,030)
Results from operating activities		5,680,752	1,913,297
Finance income	9	1,391,259	5,180,211
Finance costs	9	(4,796,685)	(4,925,421)
Net finance income/(costs)		(3,405,426)	254,790
Profit before income tax		2,275,326	2,168,087
Income tax expense	10	(205,703)	(262,266)
Profit and total comprehensive income for the year		2,069,623	1,905,821

These financial statements were approved by management on 29 June 2023 and were signed on its behalf by:



Marianna Shahinyan
General Director





Grigor Ghazaryan
Chief Accountant

Statement of Financial Position as at 31 December 2022

'000 AMD	Note	31 December 2022	31 December 2021
Assets			
Property and equipment	11	1,570,595	1,379,797
Intangible assets	12	32,175,761	31,281,985
Deferred tax asset	10	1,208,240	756,195
Right of use assets		192,430	-
Other non-current assets		38,173	6,664
Non-current assets		35,185,199	33,424,641
Inventories	13	2,878,130	2,727,117
Trade and other receivables	14	6,160,070	5,305,633
Cash and cash equivalents	15	8,291,201	7,976,420
Current assets		17,329,401	16,009,170
Total assets		52,514,600	49,433,811
Equity			
Share capital		3,000,000	3,000,000
Additional paid-in capital		178,529	178,529
Accumulated losses		(2,979,116)	(5,048,739)
Total equity	16	199,413	(1,870,210)
Liabilities			
Liabilities under Concession Agreement	18; 23(a)	35,727,915	35,106,802
Provision for Support Assets return liability	19; 23(d)	3,102,828	3,071,543
Grant related to assets		15,749	7,177
Long-term lease liabilities		135,296	-
Non-current liabilities		38,981,788	38,185,522
Liabilities under Concession Agreement	18; 23(a)	4,380,711	3,826,800
Loans and borrowings	20	3,976,417	5,071,188
Trade and other payables	21	4,250,555	4,220,511
Short-term lease liabilities		67,968	-
Corporate income tax liability		657,748	-
Current liabilities		13,333,399	13,118,499
Total liabilities		52,315,187	51,304,021
Total equity and liabilities		52,514,600	49,433,811

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 49.

Statement of Changes in Equity for 2022

'000 AMD	Share capital	Additional paid-in capital	Accumulated losses	Total
Balance at 1 January 2021	3,000,000	178,529	(6,954,560)	(3,776,031)
Comprehensive income				
Profit for the year	-	-	1,905,821	1,905,821
Total comprehensive income for the year	-	-	1,905,821	1,905,821
Balance at 31 December 2021	3,000,000	178,529	(5,048,739)	(1,870,210)
Balance at 1 January 2022	3,000,000	178,529	(5,048,739)	(1,870,210)
Comprehensive income				
Profit for the year	-	-	2,069,623	2,069,623
Total comprehensive income for the year	-	-	2,069,623	2,069,623
Balance at 31 December 2022	3,000,000	178,529	(2,979,116)	199,413

Statement of Cash Flows for 2022

'000 AMD	Note	2022	2021 (reclassified)
Cash flows from operating activities			
Receipts from sales, inclusive of VAT		27,420,581	23,371,774
Payments to suppliers		(11,949,115)	(10,604,962)
Payments to employees		(5,951,946)	(5,764,131)
Payments for taxes		(5,628,385)	(4,849,835)
Other payments		39,409	(97,356)
Cash flows from operating activities		3,930,544	2,055,490
Cash flows from investing activities			
Acquisition of property and equipment		(600,733)	(602,164)
Acquisition of intangible assets		(13,020)	(17,105)
Interest received		496,635	414,675
Cash flows used in investing activities		(117,118)	(204,593)
Cash flows from financing activities			
Payment for liabilities under Concession Agreement		(3,197,189)	(731,000)
Repayment of borrowings		(197,760)	(239,135)
Interest paid		(81,234)	(21,757)
Cash flows used in financing activities		(3,476,183)	(991,892)
Net increase in cash and cash equivalents		337,243	859,005
Cash and cash equivalents at 1 January		7,976,420	7,125,820
Effect of movements in exchange rates on cash and cash equivalents		(22,462)	(8,405)
Cash and cash equivalents at 31 December	15	8,291,201	7,976,420

The Company's non-cash investing activities are disclosed in Note 22(c).

The Company has reclassified certain amounts in statement of cash flows, see Note 23(a).

Notes to the Financial Statements for 2022

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1. Reporting entity

(a) Organisation and operations

Veolia Djur CJSC (the “Company”) was registered on 16 November 2016 as an Armenian closed joint stock company as defined in the Civil Code of the Republic of Armenia.

The Company’s registered office is 66a Abovyan Street, Yerevan 0025, Republic of Armenia.

The Company’s principal activities are the supply of water and the provision of wastewater services in Armenia, as well as, developing and improving the performance of the country’s water distribution network. The Company started its operations on 1 January 2017 when a 15-year agreement (the “Concession Agreement”) between the Company, Veolia Eau - Compagnie Generale des Eaux, France (“CGE”) and the Government of the Republic of Armenia, represented by the Water Committee of the RA Ministry of Energy Infrastructures and Natural Resources (the “Grantor”), signed on 21 November 2016, came into effect. Under the Concession Agreement the Company received from the Grantor water distribution and wastewater removal facilities (the “Infrastructure”) and equipment and materials (the “Support Assets”). The details of the Concession Agreement are described in Notes 18, 19 and 23.

The tariffs for water supply and wastewater services are regulated by the Republic of Armenia Public Services Regulatory Commission based on the Concession Agreement.

The Company is wholly owned by CGE. The Company’s ultimate parent company and the ultimate controlling party is Veolia Environment SA. The ultimate controlling party is listed in Euronext Paris. Related party transactions are disclosed in Note 25.

(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 that 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. The COVID-19 coronavirus pandemic and recent elevation of tensions over Ukraine have further increased uncertainty in the business environment.

The Company’s 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 preparation

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 (excluding measurement of fair values) that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 23(a) - measurement of the liabilities under Concession Agreement;
- Note 23(d) - provision for Support Assets return liability;
- Note 22 (c)(ii) - allowance for trade receivables;
- Note 10 – recognition of deferred tax assets.

Measurement of fair values

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 22 – financial instruments.

5. Revenue

(a) Revenue streams

The Company generates revenue primarily from the supply of water and the provision of wastewater services in Armenia. Other sources of revenue include incomes from construction or upgrade services and network connection activities.

'000 AMD	2022	2021
Revenue from water supply and wastewater services:		
<i>Households</i>	15,893,366	13,716,234
<i>Legal entities</i>	7,988,855	6,469,273
	23,882,221	20,185,507
Revenue from construction or upgrade services	4,264,591	3,935,891
Network connection activities	172,700	162,827
	4,437,291	4,098,718
Total revenue	28,319,512	24,284,225

(b) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical regions, major service lines, type of customer and timing of revenue recognition.

For the year ended 31 December	Households		Legal entities		Total	
	'000 AMD		'000 AMD		'000 AMD	
	2022	2021	2022	2021	2022	2021
Primary geographical regions of water supply and waste water services						
Yerevan	8,154,903	7,093,610	5,206,926	4,177,808	13,361,829	11,271,418
Kotayk	1,726,277	1,426,889	794,528	655,379	2,520,805	2,082,268
Ararat	1,317,635	1,141,979	277,303	239,558	1,594,938	1,381,537
Shirak	970,585	838,780	335,780	275,127	1,306,365	1,113,908
Armavir	981,486	863,336	246,701	187,250	1,228,187	1,050,586
Lori	922,317	775,470	279,505	194,120	1,201,822	969,589
Syunik	551,705	483,882	328,112	267,087	879,817	750,958
Gegharkunik	430,823	365,192	114,573	110,571	545,396	475,764
Aragatsotn	375,290	328,763	142,336	133,736	517,626	462,499
Tavush	323,798	272,484	158,965	133,245	482,763	405,729
Vayots Dzor	138,547	125,850	104,126	95,392	242,673	221,242
	15,893,366	13,716,234	7,988,855	6,469,273	23,882,221	20,185,507

'000 AMD	2022	2021
Primary geographical regions of construction or upgrade activities		
Yerevan	2,136,310	1,634,364
Kotayk	472,737	459,937
Ararat	339,269	487,324
Armavir	338,879	281,795
Aragatsotn	276,699	86,305
Tavush	189,537	176,487
Shirak	127,356	155,554
Lori	121,433	230,709
Syunik	95,563	172,234
Vayots Dzor	85,682	153,383
Gegharkunik	81,126	97,800
	4,264,591	3,935,891

**For the year ended
31 December**

'000 AMD	Households		Legal entities		Total	
	2022	2021	2022	2021	2022	2021
Major service lines						
Water supply and waste water services	15,893,366	13,716,234	7,988,855	6,469,272	23,882,221	20,185,507
Construction or upgrade services	-	-	-	-	4,264,591	3,935,891
Network connection activity	140,610	144,632	32,090	18,194	172,700	162,827
	16,033,976	13,860,867	8,020,945	6,487,467	28,319,512	24,284,225

'000 AMD	2022	2021	2022	2021	2022	2021
Timing of revenue recognition						
Products and services transferred over time	16,033,976	13,860,867	8,020,945	6,487,467	28,319,512	24,284,225
Revenue from contracts with customers	16,033,976	13,860,867	8,020,945	6,487,467	28,319,512	24,284,225

(c) Contract balances

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

'000 AMD	Note	31 December 2022	31 December 2021
Receivables, which are included in 'trade and other receivables'	14	5,775,367	4,612,577
Contract liabilities	21	379,251	456,462

The contract liabilities relate to the advance consideration received from customers for connecting to water supply and wastewater removal network of AMD 172,112 thousand (2021: AMD 186,235 thousand), for which revenue is recognised over time of water supply contract and advance consideration received from customers for the water supply and wastewater services of AMD 218,905 thousand (2021: AMD 270,227 thousand).

(d) 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 policies
Water supply and wastewater services	The Company's promise to customers is to supply water and the consideration for the water is determined based on customer's monthly consumption. Payment terms are defined in "Water supply and wastewater service rules" (WSWSR) set by industry regulator Public Services Regulatory Commission's (PSRC), according to which the Company should post relevant consumption information (monthly consumption quantities and total bill to be paid) for each consumer in the publicly available means by 15th of the month following the reporting month, after which the consumers should make cash payments in the 7 day period. No discounts are provided.	Customers simultaneously receive and consume the benefits of water supply or/and wastewater removal 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 or removed water multiplied by the effective tariffs, is measured by the data taken from water meter readers at the end of each calendar month.
Connection to water supply and wastewater network	The Company performs activities related to connecting its customers to the water supply and wastewater network. Payment terms are defined in "Water supply and wastewater service rules" (WSWSR) set by industry regulator Public Services Regulatory Commission's (PSRC), according to which 80% of the fees are paid in advance and the rest when the connection activity is completed. The length of each project does not exceed 120 days per maximum terms set by the Regulator.	The activities related to the network connection do not result in the transfer of goods or services to Customers and as such are set-up activities. Thus, revenue is recognized over the water supply contract term. Advances received are included in contract liabilities.
Revenue from construction or upgrade services	As part of the Concession Agreement, the Company is committed to perform mandatory capital works on upgrade of the water supply infrastructure amounting to AMD 37,500,000 thousand during the term of the Agreement and incur further capital expenditure, as deemed necessary. The Company recognises the consideration received for construction as an intangible asset to the extent that it receives a right to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash or other financial asset because the amounts are contingent on the extent that the public uses the service. By substance, the Company bears the demand risks.	Revenue is recognised over time based on the cost-to-cost method. The related costs are recognised in profit or loss when they are incurred.

6. Cost of sales

'000 AMD	2022	2021
Labour, wages and related taxes	4,308,760	4,183,240
Depreciation and amortisation	3,377,202	3,607,630
Outsourced construction and related services	2,698,559	2,554,122
Electricity	2,469,046	2,143,917
Materials	1,985,453	1,894,803
Repair and maintenance	847,659	681,673
Security	198,853	386,493
Resource and environmental fees	173,101	166,785
Insurance	64,682	84,854
Other	205,665	179,795
	16,328,980	15,883,312

For the year ended 31 December 2022 outsourced construction and related services of AMD 2,698,560 thousand (2021: AMD 2,554,122 thousand), materials of AMD 1,187,960 thousand (2021: AMD 1,123,426 thousand) and labor, wages and related taxes of AMD 378,071 thousand (2021: AMD 258,343 thousand) were attributable to the cost of construction or upgrade service activities.

7. Distribution expenses

'000 AMD	2022	2021
Wages, salaries and related taxes	3,048,918	2,929,098
Collection fees	331,906	241,302
Materials	95,726	77,665
Rent	83,539	89,330
Depreciation and amortisation	32,281	30,827
Advertising	19,839	21,809
Other	159,623	141,498
	3,771,832	3,531,529

8. Administrative expenses

'000 AMD	2022	2021
Wages, salaries and related taxes	994,841	921,792
Professional and management fees	456,846	500,217
Utilities and communication	99,694	117,555
License fees for use of “Veolia” marks and domain names	69,005	50,638
Depreciation and amortisation	54,229	50,622
Rent expenses	50,892	41,095
Repairs and maintenance	47,281	59,762
Representative and travel expenses	23,293	9,339
Public services regulations fees	21,970	28,743
Office expenses	3,534	3,812
Other	167,931	152,853
	1,989,516	1,936,428

9. Finance income and finance costs

'000 AMD	2022	2021
Interest income under the effective interest method on:		
Bank balances (current accounts)	496,635	414,675
Total interest income arising from financial assets measured at amortised cost	496,635	414,675
Net foreign exchange gain	894,624	469,261
Finance income as a result of change in Concession Agreement terms (see Note 18, 23)	-	4,296,276
Finance income – other	894,624	4,765,537
Financial liabilities measured at amortised cost – interest expense	(104,794)	(45,754)
Net foreign exchange loss	-	-
Unwind of discount on liability under Concession Agreement (see Note 18, 23)	(4,372,213)	(4,609,082)
Unwind of discount on Support Assets return liability (see Note 19)	(308,412)	(270,585)
Discounting effect of trade receivables	(11,266)	-
Finance costs – other	(4,796,685)	(4,925,421)
Net finance income/(costs) recognised in profit or loss	(3,405,426)	254,790

10. Income tax expense

(a) Amounts recognised in profit or loss

The Company's applicable tax rate is the income tax rate of 18% (2021: 18%).

'000 AMD	2022	2021
Current tax expense		
Current year	(657,748)	-
Deferred tax benefit		
Origination and reversal of temporary differences	483,799	103,957
Change in recognised deductible temporary differences due to write-down or reversal of deferred tax assets	(31,734)	(366,223)
Total tax expense	(205,703)	(262,266)

Reconciliation of effective tax rate:

	2022		2021	
	'000 AMD	%	'000 AMD	%
Profit before income tax	2,275,326	100	2,168,087	100
Tax at applicable tax rate	409,559	18	390,256	18
Under provided in prior years	-	-	(31,734)	(1)
Non-taxable income	(203,856)	(9)	(96,256)	(4)
	205,703	9	262,266	12.1

(b) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
'000 AMD						
Property and equipment	90,949	151,004	-	-	90,949	151,004
Intangible assets	5,995,666	6,297,266	-	-	5,995,666	6,297,266
Right of use asset	-	-	34,637	-	(34,637)	-
Trade and other receivables	662,216	619,841	-	-	662,216	619,841
Liabilities under concession agreement	-	-	5,498,673	6,285,672	(5,498,673)	(6,285,672)
Provision for Support Assets	-	-	286,341	291,973	(286,341)	(291,973)
Trade and other payable	256,548	249,320	-	-	256,548	249,320
Grant received assets	2,835	1,292	-	-	2,835	1,292
Additionally paid in capital	-	-	15,687	16,617	(15,687)	(16,617)
Lease liabilities	35,364	-	-	-	35,364	-
Tax loss carry forwards	-	31,734	-	-	-	31,734
Net tax (asset)/liability	7,043,578	7,350,457	5,835,338	6,594,262	1,208,240	756,195

(c) Movement in deferred tax balances

'000 AMD	1 January 2022	Recognised in profit or loss	31 December 2022
Property and equipment	151,004	(60,055)	90,949
Intangible assets	6,297,266	(301,600)	5,995,666
Right of use asset	-	(34,637)	(34,637)
Trade and other receivables	619,841	42,375	662,216
Liabilities under Concession Agreement	(6,285,672)	786,999	(5,498,673)
Provision for Support Assets	(291,973)	5,632	(286,341)
Trade and other payable	249,320	7,228	256,548
Grant received assets	1,292	1,543	2,835
Additionally paid in capital	(16,617)	930	(15,687)
Lease liabilities	-	35,364	35,364
Tax loss carry forwards	31,734	(31,734)	-
Net tax (asset)/liability	756,195	452,045	1,208,240

'000 AMD	1 January 2021	Recognised in profit or loss	31 December 2021
Property and equipment	161,253	(10,249)	151,004
Intangible assets	6,683,724	(386,458)	6,297,266
Trade and other receivables	444,494	175,347	619,841
Liabilities under Concession Agreement	(6,341,977)	56,305	(6,285,672)
Provision for Support Assets	(319,787)	27,814	(291,973)
Trade and other payable	31,986	217,334	249,320
Grant received assets	-	1,292	1,292
Additionally paid in capital	(39,190)	22,573	(16,617)
Tax loss carry forwards	397,957	(366,223)	31,734
Net tax (asset)/liability	1,018,460	(262,265)	756,195

11. Property and equipment

'000 AMD	Machinery and equipment	Motor vehicles	Fixtures and fittings	Computer equipment	Other	Total
<i>Cost</i>						
Balance at 1 January 2021	1,748,476	2,097,602	568,464	223,809	104,353	4,742,704
Additions	187,487	258,237	53,282	-	103,158	602,164
Disposals	(63,541)	(750)	(59)	-	(2,862)	(67,212)
Transfers	(14,337)	108,325	3,339	2,225	(99,552)	-
Balance at 31 December 2021	1,858,085	2,463,414	625,026	226,034	105,097	5,277,656
Balance at 1 January 2022	1,858,085	2,463,414	625,026	226,034	105,097	5,277,656
Additions	149,934	133,713	116,051	41	200,994	600,733
Disposals	(75,083)	(28,200)	(188)	(68)	(400)	(103,939)
Transfers	(12,341)	28,508	(69,651)	66,181	(12,697)	-
Balance at 31 December 2022	1,920,595	2,597,435	671,238	292,188	292,994	5,774,450
<i>Depreciation</i>						
Balance at 1 January 2021	1,167,824	1,279,978	337,284	171,540	45,610	3,002,236
Depreciation for the year	326,465	426,906	100,858	37,150	4,990	896,369
Disposals	-	-	-	-	(746)	(746)
Transfers	(14)	14	-	-	-	-
Balance at 31 December 2021	1,494,275	1,706,898	438,142	208,690	49,854	3,897,859
Balance at 1 January 2022	1,494,275	1,706,898	438,142	208,690	49,854	3,897,859
Depreciation for the year	88,205	180,606	51,669	29,315	3,231	353,026
Disposals	(19,420)	(27,421)	(121)	(68)	-	(47,030)
Transfers	1,245	108	(1,353)	-	-	-
Balance at 31 December 2022	1,564,305	1,860,191	488,337	237,937	53,085	4,203,855
<i>Carrying amounts</i>						
At 1 January 2021	580,652	817,624	231,180	52,269	58,743	1,740,468
At 31 December 2021	363,810	756,516	186,884	17,344	55,243	1,379,797
At 31 December 2022	356,290	737,244	182,901	54,251	239,909	1,570,595

Depreciation expense of AMD 268,835 thousand (2021: AMD 817,259 thousand) has been charged to cost of sales, AMD 32,281 thousand (2021: AMD 30,827 thousand) to distribution expenses and AMD 51,910 thousand (2021: AMD 48,283 thousand) to administrative expenses.

12. Intangible assets

'000 AMD	<u>Concession intangible assets</u>	<u>Other</u>	<u>Total</u>
<i>Cost</i>			
Balance at 1 January 2021	39,322,992	139,723	39,462,715
Additions	3,819,831	17,105	3,836,936
Disposals	(66,521)	-	(66,521)
Balance at 31 December 2021	<u>43,076,302</u>	<u>156,828</u>	<u>43,233,130</u>
Balance at 1 January 2022	43,076,302	156,828	43,233,130
Additions	3,987,464	13,020	4,000,484
Disposals	(65,008)	-	(65,008)
Balance at 31 December 2022	<u>46,998,758</u>	<u>169,848</u>	<u>47,168,606</u>
<i>Amortisation</i>			
Balance at 1 January 2021	9,101,627	56,792	9,158,419
Amortisation for the year	2,762,363	30,363	2,792,726
Balance at 31 December 2021	<u>11,863,990</u>	<u>87,155</u>	<u>11,951,145</u>
Balance at 1 January 2022	11,863,990	87,155	11,951,145
Amortisation for the year	3,009,847	31,853	3,041,700
Balance at 31 December 2022	<u>14,873,837</u>	<u>119,008</u>	<u>14,992,845</u>
<i>Carrying amounts</i>			
At 1 January 2021	30,221,365	82,931	30,304,296
At 31 December 2021	<u>31,212,312</u>	<u>69,673</u>	<u>31,281,985</u>
At 31 December 2022	<u>32,124,921</u>	<u>50,840</u>	<u>32,175,761</u>

Concession intangible assets correspond to the right of the concession holder – Veolia Djur CJSC to bill users of a public service in accordance with IFRIC 12, *Service Concession Arrangements*.

Additions of concession intangible assets in the amount of AMD 277,127 thousand (2021: AMD 116,061 thousand) represent change in estimate of provision for Support Assets return liability.

(a) Amortisation

Amortization expense of AMD 3,039,381 thousand (2021: AMD 2,790,371 thousand) has been charged to cost of sales and AMD 2,319 thousand (2021: AMD 2,355 thousand) to administrative expenses.

13. Inventories

'000 AMD	2022	2021
Spare parts, materials and consumables	2,775,534	2,641,035
Other	102,596	86,082
	2,878,130	2,727,117

14. Trade and other receivables

'000 AMD	2022	2021
Trade and other financial assets		
Trade receivables:		
<i>Households</i>	7,082,910	6,199,995
<i>Legal entities</i>	2,502,786	2,018,057
Allowance for impairment on trade receivables	(4,291,103)	(3,605,475)
Other receivables	525,009	479,267
Total trade and other financial assets	5,819,602	5,091,844
Trade and other non-financial assets		
Taxes receivables	74,886	60,834
Prepayments given	265,582	152,955
Total trade and other non-financial assets	340,468	213,789
Total trade and other receivables	6,160,070	5,305,633

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

15. Cash and cash equivalents

'000 AMD	2022	2021
Bank balances (current accounts)	8,259,111	7,952,133
Tax Uni-balance	32,090	24,287
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	8,291,201	7,976,420

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

16. Capital and reserves

(a) Share capital

Number of shares unless otherwise stated

	Ordinary shares	
	2022	2021
In issue at 1 January	300	300
In issue at 31 December, fully paid	300	300
Authorised shares - par value	AMD 10,000,000	AMD 10,000,000

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) Dividends

In accordance with Armenian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with accounting regulations of the Republic of Armenia, except for restrictions on retained earnings as described below.

At 31 December 2022 the Company did not have reserves available for distribution (2021: none).

No dividends were declared at the reporting date and during 2022 (2021: none).

(c) Additional paid-in capital

The additional paid-in capital represents free of charge assets received from a related party in amount of AMD 178,529 thousand, net of related income tax.

17. 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, and to maintain confidence of market participants. 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.

The Company's debt to equity ratio at the end of the reporting period was as follows:

'000 AMD	2022	2021
Total liabilities	52,315,187	51,304,021
Less: cash and cash equivalents	8,291,201	7,976,420
Net debt	44,023,986	43,327,601
Total equity	199,413	(1,870,210)
Net debt to equity ratio at 31 December	220.8	(23.2)

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.

18. Liabilities under Concession Agreement

'000 AMD	2022	2021
Balance at 1 January	38,933,602	39,351,795
Decrease in liabilities during the year due to payments made	(3,197,189)	(731,000)
Decrease in liabilities during the year due to change in contractual terms (see Note 23)	-	(4,296,275)
Unwind of discount	4,372,213	4,609,082
Balance at 31 December	40,108,626	38,933,602

The details of measurement of the liabilities under Concession Agreement are described in Note 23.

19. Provision for Support Assets return liability

'000 AMD	2022	2021
Balance at 1 January	3,071,543	2,917,019
Provision made during the year	-	-
Change in estimate	(277,127)	(116,061)
Unwind of discount	308,412	270,585
Balance at 31 December	3,102,828	3,071,543

The details of measurement of the provision for Support Assets return liability are described in Note 23.

20. 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. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 22.

'000 AMD	2022	2021
<i>Current liabilities</i>		
Unsecured borrowing from related party	3,976,417	5,071,188
	3,976,417	5,071,188

(a) **Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2022		31 December 2021	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured borrowing from related party	USD	FedFund +0.84%	On demand	3,976,417	3,976,417	5,071,188	5,071,188
				3,976,417	3,976,417	5,071,188	5,071,188

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

'000 AMD	Note	Liabilities Other loans and borrowings
Balance at 1 January 2021		5,759,636
Changes from financing cash flows		
Proceeds from loans and borrowings		(239,135)
Total changes from financing cash flows		(239,135)
The effect of changes in foreign exchange rates		(468,735)
Other changes		
<i>Liability-related</i>		
Interest expense	9	45,754
Interest paid		(21,757)
Withholding tax expense from interest paid		(4,575)
Total liability-related other changes		19,422
Total equity-related other changes		(239,135)
Balance at 31 December 2021		5,071,188

'000 AMD	Note	Liabilities Other loans and borrowings
Balance at 1 January 2022		5,071,188
Changes from financing cash flows		
Repayment of loans and borrowings		(197,760)
Total changes from financing cash flows		(197,760)
The effect of changes in foreign exchange rates		(910,092)
Other changes		
<i>Liability-related</i>		
Interest expense	9	104,794
Interest paid		(81,234)
Withholding tax expense from interest paid		(10,479)
Total liability-related other changes		13,081
Total equity-related other changes		(197,760)
Balance at 31 December 2022		3,976,417

21. Trade and other payables

'000 AMD	2022	2021
Trade payables	1,400,116	1,446,929
Vacation reserve	1,204,129	954,788
Taxes payable	683,098	825,782
Prepayments received from customers	397,820	475,135
Salaries and wages	361,855	342,903
Other	203,537	174,974
	4,250,555	4,220,511

The Company's exposure to liquidity risk related to trade and other payables is disclosed in Note 22.

22. Fair values and risk management

(a) Fair values of financial instruments

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

(b) Measurement of fair values

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Loans and receivables	Discounted cash flows	Not applicable
Other financial liabilities*	Discounted cash flows	Not applicable

* Other financial liabilities include loans and borrowings, liabilities under Concession Agreement and trade payables.

(c) 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

Management has overall responsibility for the establishment and oversight of the Company's risk management framework. Management reports regularly to the Board of Directors on its activities.

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.

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

'000 AMD	2022	2021
Impairment loss on trade receivables arising from contracts with customers	(695,235)	(1,038,771)

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of customers in the areas in which it operates. The Company does not have an established credit policy under which each new customer is analysed for creditworthiness. The Company does not require collateral in respect of trade receivables nor does it require prepayment before sales are made.

In monitoring customer credit risk, customers are grouped according to their credit risk characteristics including whether they are an individual household or legal entity and aging profile, and are analyzed through late-payment statistics.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for individual and corporate customers.

At 31 December, the exposure to credit risk for trade receivables by type of counterparty was as follows.

'000 AMD	Carrying amount	
	2022	2021
Households	4,203,345	3,590,744
Legal entities	1,091,248	1,021,833
	5,294,593	4,612,577

None of the Company's customers have external credit ratings assigned.

Expected credit loss assessment for customers

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

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – type of customer (legal entities versus individuals).

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 2022.

'000 AMD	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	5%	2,415,219	111,725	No
1-30 days past due	21%	532,326	110,919	No
31-90 days past due	30%	924,804	280,224	No
91-180 days past due	42%	1,248,517	520,191	Yes
181-365 days past due	64%	1,146,735	735,130	Yes
More than 365 days past due	76%	3,318,095	2,532,914	Yes
		9,585,696	4,291,103	

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 2021.

'000 AMD	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	3%	2,584,480	81,339	No
1-30 days past due	15%	479,293	71,946	No
31-90 days past due	25%	785,573	198,560	No
91-180 days past due	38%	895,328	338,315	Yes
181-365 days past due	58%	1,108,649	645,548	Yes
More than 365 days past due	96%	2,364,729	2,269,767	Yes
		8,218,052	3,605,475	

Loss rates are based on actual credit loss experience over the past two years. Considering the short nature of trade receivable balances (up to 30 days), no forward looking information is incorporated into ECL calculation by the Company.

The Company is currently in the process of negotiations with the RA government and Water Committee of the RA Ministry of Energy Infrastructure and Natural Resources on collection of receivables from two organizations (one state administrative institution and one community non-commercial organization).

As at 31 December 2022, the aggregate total receivables from these organizations before impairment losses amounted to AMD 610,243 thousand. As at the reporting date, the impairment provision on receivables from these two organizations amounted to AMD 562,751 thousand.

The Company is in the process of negotiations with the RA government to ensure collection of these receivables. Taking into account partnership relations with the RA government, as well as the Company's reliance on the positive outcome of the negotiations, the Company paid the concession fee assigned to on 31 May 2022 by the Concession Agreement in the amount less than the total amount of receivables from these two organizations as at 1 May 2022.

Movements in the allowance for impairment in respect of trade receivables

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

'000 AMD	2022	2021
Balance at 1 January	3,605,475	2,515,269
Write-offs	(9,607)	(13,690)
Reclassification of previously recognised discount effect	-	65,125
Net remeasurement of loss allowance	695,235	1,038,771
Balance at 31 December	4,291,103	3,605,475

Cash and cash equivalents

The Company held bank balances (current accounts) of AMD 8,291,201 thousand at 31 December 2022 (2021: AMD 7,976,420 thousand), which represents its maximum credit exposure on these assets. The bank balances (current accounts) are held mainly with Armbusinessbank CJSC, Ardshinbank CJSC and ACBA-Credit Agrikole Bank CJSC and the Company does not expect them to fail to meet their 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.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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

31 December 2022

'000 AMD	Carrying amount	Contractual cash flows	On demand	Less than 2 months	2-12 months	1-2 yrs	2-5 yrs	Over 5 yrs
Non-derivative financial liabilities								
Unsecured borrowing from related party	3,976,417	3,976,417	3,976,417	-	-	-	-	-
Liabilities under Concession Agreement	40,108,626	70,027,200	-	-	3,751,100	4,473,500	21,001,100	40,801,500
Trade and other payables	2,966,100	2,966,100	-	2,966,100	-	-	-	-
	<u>47,051,143</u>	<u>76,969,717</u>	<u>3,976,417</u>	<u>2,966,100</u>	<u>3,751,100</u>	<u>4,473,500</u>	<u>21,001,100</u>	<u>40,801,500</u>

31 December 2021

'000 AMD	Carrying amount	Contractual cash flows	On demand	Less than 2 months	2-12 months	1-2 yrs	2-5 yrs	Over 5 yrs
Non-derivative financial liabilities								
Unsecured borrowing from related party	5,071,188	5,071,188	5,071,188	-	-	-	-	-
Liabilities under Concession Agreement	38,933,602	73,854,000	-	-	3,826,800	3,751,100	16,320,400	49,955,700
Trade and other payables	2,744,620	2,744,620	-	2,744,620	-	-	-	-
	<u>46,749,410</u>	<u>81,669,808</u>	<u>5,071,188</u>	<u>2,744,620</u>	<u>3,826,800</u>	<u>3,751,100</u>	<u>16,320,400</u>	<u>49,955,700</u>

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 and interest rates 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.

The Company does not apply hedge accounting in order to manage volatility in profit or loss.

(v) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company. The currency in which these transactions primarily are denominated is USD.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

'000 AMD	USD-denominated	USD-denominated
	2022	2021
Loans and borrowings	(3,976,417)	(5,071,188)
Cash and cash equivalent	150,634	65,207
	(3,825,783)	(5,005,981)

The following significant exchange rates applied during the year:

in AMD	Average rate		Reporting date spot rate	
	2022	2021	2022	2021
	USD 1	434.86	503.81	393.57

Sensitivity analysis

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

'000 AMD	Strengthening	Weakening
	Profit or loss	Profit or loss
31 December 2022		
AMD 10% movement against USD	382,578	(382,578)
31 December 2021		
AMD 10% movement against USD	507,102	(507,102)

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	
	2022	2021
Variable rate instruments		
Financial liabilities	3,976,417	5,071,188

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
2022		
Variable rate instruments	(32,607)	(32,607)
Cash flow sensitivity (net)	(32,607)	32,607
2021		
Variable rate instruments	(41,584)	41,584
Cash flow sensitivity (net)	(41,584)	41,584

23. Concession Agreement

On 21 November 2016 a 15-year agreement was signed between the Company, CGE and the Grantor in relation to the provision of services for water supply and wastewater services in Armenia, technical and commercial management.

During the term of the agreement, the Company is the exclusive right holder for the use of the Infrastructure to enable the provision of the services.

During the term of the agreement the tariffs to be charged to customers for the provision of services are set by the Public Services Regulatory Commission of the Republic of Armenia but are dependent on several factors in the Concession Agreement such as EUR/AMD exchange rate, water consumption volumes, inflation and electricity prices and collection rates from customers.

(a) Concession fee payments to the Grantor

Under the Concession Agreement the Company is required to make regular payments to the Grantor over the concession period to acquire the right to charge users of public services.

The following fixed fee payments are required to be made by the Company to the Grantor over the term of the Concession Agreement:

'000 AMD	2022	2021
Less than one year	3,751,100	3,826,800
Between one and five years	25,474,600	20,071,500
More than five years	40,801,500	49,955,700
	70,027,200	73,854,000

The Company included the fair value of such payments, representing the present value of the annual payments to the Grantor, discounted at a pre-tax discount rate of 13.5% in the cost of concession intangible assets and recognised a corresponding concession liability at inception of the Concession Agreement.

Starting from 1 January 2020 RA Government ceased the subsidy of tariffs for water supply and wastewater services. However, in order to keep tariffs unchanged for population and compensate the Company for lost profits, the total payments under the Concession Agreement were decreased from AMD 89,749,000 thousand to AMD 80,426,300 thousand according to Agreement with the RA Government No 13 dated 25 July 2019.

As a result of this significant modification, the previously recognised concession liability was derecognised and a new liability was recognised as of 31 July 2019 with an incremental borrowing rate of 11.9%. The resulting gain of AMD 4,744,688 thousand from modification was recognised in statement of profit or loss and other comprehensive income for 2019.

The discount rate was estimated based on an industry average borrowing rates as published by Central Bank of Armenia for loans with similar maturity term as the concession liability.

On 10 November 2021 according to Agreement with RA Government No 24 the payments for concession liability were rescheduled.

As a result of this significant modification, the previously recognised concession liability was derecognised and a new liability was recognised as of 1 November 2021 with an incremental borrowing rate of 11.6%. The resulting gain of AMD 4,296,276 thousand (Note 9) from modification was recognised in statement of profit or loss and other comprehensive income for 2021. An increase/decrease of 1% in the discount rate used would have caused the discounted amount of future cash flows to equal to AMD 6,129,241 thousand and AMD 2,328,228 thousand respectively.

The discount rate was estimated based on an industry average borrowing rates as published by Central Bank of Armenia for loans with similar maturity term as the concession liability.

The Company has recognised payments for liabilities under Concession Agreement in the statement of cash flows under financing activities. Prior year figures in amount of AMD 731,000 thousand are also reclassified accordingly.

(b) Operation services

The Company accounts for revenue and costs relating to water supply and wastewater services in accordance with IFRS 15.

(c) Construction or upgrade services

As part of the Concession Arrangement the Company is committed to perform mandatory capital works on upgrade of the water supply infrastructure amounting to AMD 37,500,000 thousand as presented in the table below and incur further capital expenditure, as deemed necessary.

Contract year	Amount '000 AMD	Contract year	Amount '000 AMD
1	1,500,000	11	2,750,000
2	1,750,000	12	2,500,000
3	1,222,000	13	2,500,000
4	2,750,000	14	2,500,000
5	2,750,000	15	2,500,000
6	2,750,000		
7	2,750,000		
8	2,750,000		
9	3,778,000		
10	2,750,000		

The Company accounts for revenue and costs relating to construction or upgrade services in accordance with IFRS 15.

For the year ended 31 December 2022, the Company has recognised revenue of AMD 28,319,512 thousand (2021: AMD 24,284,225 thousand), consisting of AMD 4,264,591 thousand (2021: AMD 3,935,891 thousand) on construction and AMD 20,348,334 thousand (2021: AMD 20,348,334 thousand) on water supply and wastewater services. The revenue recognised in relation to construction in 2020 and 2019 represents the fair value of the construction services provided in reconstruction of the water distribution and wastewater removal facilities. These were provided in exchange for the right to charge customers and represent non-cash investing transactions.

As at 31 December 2022 the Company has recognised an intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement of AMD 4,264,591 thousand (31 December 2021: AMD 3,935,891 thousand). The intangible asset represents the right to charge users a fee for use of public services.

(d) Support Assets

On 1 January 2017 under the Concession Agreement the Company received from the Grantor equipment with a fair value of AMD 2,578,546 thousand and materials with a fair value of AMD 1,980,083 thousand as Support Assets in addition to the infrastructure.

During the year ended 31 December 2018 the Company received from the Grantor additional equipment with a fair value of AMD 68,466 thousand and materials with a fair value of AMD 80,638 thousand. As at 31 December 2018 the provision for Support Assets return liability for these items amounted AMD 60,763 thousand (Note 19).

These assets are recognised as assets of the Company, measured at fair value on initial recognition.

The operator may retain, use or sell the assets at its discretion but in order to ensure the provision of the services by the subsequent operator. The Company has to transfer to the Grantor the Support Assets at the end of the Concession Agreement (without compensation) equivalent to the items transferred at the beginning of the Concession Agreement. However equivalency is not defined in the Concession Agreement.

As at 31 December 2022 and 2021 the Company recognised a return liability for the Support Assets treating equivalency as monetary equivalency of the Support Assets. The return liability included the following components and was measured as follows:

- inventory component - the amount required to replace the materials at the end of the Concession Agreement term. The measurement of the liability was based on the current prices of the materials adjusted for estimated inflation assessed by management.
- property and equipment component - management's best estimate of the amount required to restore the property and equipment to their original state at the end of the Concession Agreement term. The measurement of the liability was based on the current prices of the property and equipment adjusted for estimated inflation assessed by management.

The return liability as at 31 December 2022 was discounted using the yields of the RA Government Bonds maturing in ten years of 12.01% (2021: 10.02%) as published by Central Bank of Armenia. The difference between the return liability as at 31 December 2022 and 2021 and the fair value of Support Assets was presented as a deduction from concession intangible assets.

24. Contingencies

(a) Insurance

The insurance industry in the Republic of 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 plant facilities and business interruption. 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

In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the results of operations or financial position of the Company.

(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.

Transfer pricing legislation enacted in the Republic of Armenia starting from 1 January 2020. The legislation is effective for the financial year 2020 and onwards. The local transfer pricing rules are closer to OECD guidelines, but with uncertainty in practical application of tax legislation in certain circumstances.

Transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

Transfer pricing rules apply to the transactions listed below, if the total amount of the controlled transaction exceeds AMD 200 million in the tax year:

- cross-border transactions between related parties;
- cross-border transactions with companies registered in offshore zones, regardless of being related party or not;
- certain in-country transactions between related parties, as determined under the Armenian tax code.

Since there is no practice of applying the transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these financial statements.

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.

25. Related party transactions

(a) Control relationships

The Company is wholly owned by Veolia Eau – Compagnie Generale des Eaux, France. The Company’s ultimate parent company and the ultimate controlling party is Veolia Environment SA. Veolia Environment SA produces publicly available financial statements.

(b) Transactions with key management personnel

Key management remuneration

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

’000 AMD	2022	2021
Salaries and bonuses	116,092	70,772

(c) Other related party transactions

The Company’s other related party transactions are disclosed below.

’000 AMD	Transaction value 2022	Transaction value 2021	Outstanding balance 2022	Outstanding balance 2021
Services received				

'000 AMD	Transaction value 2022	Transaction value 2021	Outstanding balance 2022	Outstanding balance 2021
Ultimate parent company	(333,441)	(312,469)	(324,446)	(488,622)
Entities under common control	(10,380)	-	(10,158)	-
Purchase of goods and property and equipment				
Entities under common control	-	-	-	-
Services provided				
Entities under common control	600	600	60	60
Prepayments for goods and services				
Ultimate parent company	436,627	359,413	-	-
Entities under common control	150	130	-	-
Loans received:				
Entities under common control	-	-	(3,976,417)	(5,071,188)
Others:				
Entities under common control	-	-	(134,331)	(126,709)

The loan from the entity under common control bears interest at FedFund+0.84% per annum and is repayable upon demand. During 2022 interest expense of AMD 104,794 thousand was accrued on loans received from the entity under common control (2021: AMD 45,754 thousand).

26. Basis of measurement

The financial statements are prepared on the historical cost basis.

27. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except the presentation of the statement of cash flows was changed from indirect method to direct method. Management is of the opinion that direct method provides more relevant information. Comparative information is reclassified to conform to changes in presentation in the current year.

(a) Revenue

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

(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 or expense is 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.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

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

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(d) Short-term employee 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 recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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

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 realised simultaneously.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Materials used for construction works in the scope of improvement program under concession agreement is recognized as inventories in accordance with IAS 2. Such accounting provides more relevant information as it allows inventories to be recognized as expense in the same period when respective construction revenue is recognized.

(g) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(ii) Infrastructure

In accordance with IFRIC 12 *Service Concession Arrangements* assets used in the services provided by the Company (the “Infrastructure”) are not recognized as property and equipment of the Company, if both of the following criteria are satisfied:

- the Grantor controls or regulates the services to be provided by the Company using the Infrastructure, the beneficiaries of the services and prices applied;
- the Grantor controls the significant residual interest in the Infrastructure at the end of the term of the arrangement.

(iii) 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 and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

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

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

– machinery and equipment	3-10 years
– motor vehicles	3-10 years
– fixtures and fittings	3-10 years
– computer equipment	2-5 years
– other	4-10 years

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

(h) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, that has useful life more than 12 months.

(i) Service concession arrangements

The Company recognises an intangible asset arising from a service concession arrangement when it has a right to charge for use of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value on initial recognition with reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Company is able to charge the public for the use of the infrastructure to the end of the concession period.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|--------------------------------|---------------------------|
| – Concession intangible assets | Concession Agreement term |
| – other | 5-15 years |

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

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables 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

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost.

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;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- 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 – 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;
- 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.

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 and 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 are deemed to have expired. In making this evaluation the Company analogizes to the guidance on 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.

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.

(j) Share capital

Ordinary shares

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

(k) Impairment

(i) 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 in full; or
- the financial asset is more than 365 days past due.

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

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).

Due to short maturities of trade receivables no discounting is applied for the ECLs.

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 3 years past due based on historical experience of recoveries of similar assets. 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.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) 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.

(m) Leases

(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. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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 that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' 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, including vehicles. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

28. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

(a) 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.

(b) Lease liability in a Sale and Leaseback (Amendments to IFRS 16)

The amendment to IFRS 16 Leases specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8.

(c) Other standards

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

- Annual Improvements to IFRS Standards 2018-2020.
- 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).