Veolia Djur CJSC

Financial Statements

Year ended 31 December 2023
together with independent auditor’s report

Contents

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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 2023, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 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) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and 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

31 May 2024

Statement of Profit or Loss and Other Comprehensive Income for 2023

'000 AMD	Note	2023	2022
Revenue	5	30,418,145	28,319,512
Cost of sales	6	(16,937,798)	(16,328,980)
Gross profit		**13,480,347**	**11,990,532**
Distribution expenses	7	(3,943,061)	(3,771,832)
Administrative expenses	8	(2,197,244)	(1,989,516)
Impairment loss on trade and other receivables	25	(194,949)	(695,235)
Other expenses	9	(389,007)	(140,161)
Other income	10	318,736	286,964
Results from operating activities		**7,074,822**	**5,680,752**
Finance income	11	620,640	1,391,259
Finance costs	11	(5,208,808)	(4,796,685)
Net finance costs		**(4,588,168)**	**(3,405,426)**
Profit before income tax		**2,486,654**	**2,275,326**
Income tax expense	12	(601,434)	(205,703)
Profit and total comprehensive income for the year		**1,885,220**	**2,069,623**

These financial statements were approved by management on 31 May 2024 and were signed on its behalf by:

Marianna Shahinyan
General Director

Grigor Ghazaryan
Chief Accountant

The accompanying notes 1 to 31 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2023

’000 AMD	Note	*31 December 2023*	*31 December 2022*
Assets			
Property and equipment	13	1,989,761	1,570,595
Intangible assets	14	33,474,667	32,175,761
Deferred tax asset	12	1,786,580	1,208,240
Right of use assets	15	840,040	192,430
Prepayments		215,086	38,173
Non-current assets		**38,306,134**	**35,185,199**
Inventories	16	3,090,104	2,878,130
Trade and other receivables	17	7,454,764	6,160,070
Cash and cash equivalents	18	8,742,026	8,291,201
Current assets		**19,286,894**	**17,329,401**
Total assets		**57,593,028**	**52,514,600**
Equity			
Share capital		3,000,000	3,000,000
Additional paid-in capital		178,529	178,529
Accumulated losses		(1,093,896)	(2,979,116)
Total equity	19	**2,084,633**	**199,413**
Liabilities			
Liabilities under Concession Agreement	21, 26(a)	35,692,746	35,727,915
Provision for Support Assets return liability	22, 26(d)	3,724,617	3,102,828
Grant related to assets		11,528	15,749
Long-term lease liabilities	15	581,228	135,296
Non-current liabilities		**40,010,119**	**38,981,788**
Liabilities under Concession Agreement	21, 26(a)	6,129,733	4,380,711
Loans and borrowings	23	3,694,452	3,976,417
Trade and other payables	24	4,559,086	4,250,555
Short-term lease liabilities	15	314,968	67,968
Corporate income tax liability		800,037	657,748
Current liabilities		**15,498,276**	**13,333,399**
Total liabilities		**55,508,395**	**52,315,187**
Total equity and liabilities		**57,593,028**	**52,514,600**

The accompanying notes 1 to 31 form an integral part of these financial statements.

Statement of Changes in Equity for 2023

'000 AMD	***Share capital***	***Additional paid-in capital***	***Accumulated losses***	***Total***
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**
Balance at 1 January 2023	3,000,000	178,529	(2,979,116)	**199,413**
Comprehensive income				
Profit for the year	–	–	1,885,220	**1,885,220**
Total comprehensive income for the year	–	–	**1,885,220**	**1,885,220**
Balance at 31 December 2023	**3,000,000**	**178,529**	**(1,093,896)**	**2,084,633**

The accompanying notes 1 to 31 form an integral part of these financial statements.

Statement of Cash Flows for 2023

'000 AMD	Note	2023	2022 (reclassified)
Cash flows from operating activities			
Receipts from sales, inclusive of VAT		30,027,980	27,420,581
Payments to suppliers		(12,727,671)	(11,925,135)
Payments to employees		(6,154,567)	(5,951,946)
Payments for taxes		(6,058,245)	(5,628,385)
Other (payments)/receipts		(58,012)	39,409
Net cash provided from operating activities before income tax paid		**5,029,485**	**3,954,524**
Income tax paid		(1,037,485)	–
Cash flows from operating activities		**3,991,999**	**3,954,524**
Cash flows from investing activities			
Acquisition of property and equipment		(672,279)	(600,733)
Acquisition of intangible assets	14	(12,773)	(13,020)
Interest received	11	620,640	496,635
Cash flows used in investing activities		**(64,412)**	**(117,118)**
Cash flows from financing activities			
Payment for liabilities under Concession Agreement		(2,724,478)	(3,197,189)
Repayment of borrowings		(413,450)	(197,760)
Lease payments, principal		(93,981)	(12,714)
Interest paid		(253,409)	(92,500)
Cash flows used in financing activities		**(3,485,318)**	**(3,500,163)**
Net increase in cash and cash equivalents		**442,269**	**337,243**
Cash and cash equivalents at 1 January		8,291,201	7,976,420
Effect of movements in exchange rates on cash and cash equivalents		8,556	(22,462)
Cash and cash equivalents at 31 December	18	**8,742,026**	**8,291,201**

The Company's non-cash investing activities are disclosed in Note 25(c).

The Company has reclassified certain amounts in statement of cash flows, see Note 15(d).

The accompanying notes 1 to 31 form an integral part of these financial statements.

Notes to the Financial Statements for 2023

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 21, 22 and 26.

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

In 2023, the Company has been granted licenses for production of energy that is being consumed mainly for internal purposes using solar energy and hydrapower. The surplus energy incurred, if any, is realized. The licenses are granted by Public Service Regulatory Commission of the Republic of Armenia.

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 28.

(b) Armenian business environment

"The Company’s operations are primarily located in Armenia. Consequently, the Company is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. Additionally, the breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories, later escalation of the conflict in the Republic of Armenia territory has further increased uncertainty in the business environment.

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia and Belarus, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Armenia.

As a result of the war there was an influx of non-residents (especially from Russia) to Armenia contributing to significant increase in the volume of money inflows from Russia, Ukraine and Belarus and activation of cards transactions, which has had positive impact on the Armenian economy with the resulting double-digit growth generally increased revenue in the Company specifically. The Company’s management is monitoring the economic situation in the current environment. As the war is still waging, it is impossible to reliably assess the final impact this may have on the Company’s business as there is uncertainty over the magnitude of the impact on the economy in general.

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

2. Basis of 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 26 (a) – measurement of the liabilities under Concession Agreement;
- Note 26 (d) – provision for Support Assets return liability;
- Note 25 (c)(ii) – allowance for trade receivables;
- Note 12 – 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 25 –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	***2023***	***2022***
Revenue from water supply and wastewater services:		
Households	17,375,746	15,893,366
Legal entities	8,461,085	7,988,855
	25,836,831	**23,882,221**
Revenue from construction or upgrade services	4,440,250	4,264,591
Network connection activities	137,389	167,796
Other	3,675	4,904
	4,581,314	**4,437,291**
Total revenue	**30,418,145**	**28,319,512**

Notes to the Financial Statements for 2023

5. Revenue (continued)

(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	***2023***	***2022***	***2023***	***2022***	***2023***	***2022***
Primary geographical regions of water supply and waste water services						
Yerevan	8,765,251	8,154,903	5,565,761	5,206,926	14,331,012	13,361,829
Kotayk	1,938,423	1,726,277	873,804	794,528	2,812,227	2,520,805
Ararat	1,446,718	1,317,635	290,727	277,303	1,737,445	1,594,938
Armavir	1,187,546	981,486	278,396	246,701	1,465,942	1,228,187
Shirak	1,038,606	970,585	357,724	335,780	1,396,330	1,306,365
Lori	1,022,476	922,317	294,020	279,505	1,316,496	1,201,822
Syunik	591,627	551,705	291,057	328,112	882,684	879,817
Gegharkunik	464,437	430,823	113,315	114,573	577,752	545,396
Aragatsotn	423,028	375,290	148,003	142,336	571,031	517,626
Tavush	345,450	323,798	159,271	158,965	504,721	482,763
Vayots Dzor	152,184	138,547	89,007	104,126	241,191	242,673
	17,375,746	**15,893,366**	**8,461,085**	**7,988,855**	**25,836,831**	**23,882,221**

'000 AMD	***2023***	***2022***
Primary geographical regions of construction or upgrade activities		
Yerevan	1,919,119	2,136,310
Kotayk	768,435	472,737
Ararat	340,155	339,269
Tavush	290,970	189,537
Armavir	277,459	338,879
Syunik	265,792	95,563
Lori	186,200	121,433
Gegharkunik	167,128	81,126
Shirak	125,105	127,356
Aragatsotn	73,779	276,699
Vayots Dzor	26,108	85,682
	4,440,250	**4,264,591**

For the year ended 31 December	*Households*		*Legal entities*		*Total*	
'000 AMD	***2023***	***2022***	***2023***	***2022***	***2023***	***2022***
Major service lines						
Water supply and waste water services	17,375,746	15,893,366	8,461,085	7,988,855	25,836,831	23,882,221
Network connection activity	111,438	140,610	25,951	27,186	137,389	167,796
Other	–	–	3,675	4,904	3,675	4,904
	17,487,184	**16,033,976**	**8,490,711**	**8,020,945**	**25,977,895**	**24,054,921**

The Company also recognized over time construction or upgrade services revenue in amount of AMD 4,440,250 thousand for 2023 (2022: AMD 4,264,591 thousand).

'000 AMD	***2023***	***2022***	***2023***	***2022***	***2023***	***2022***
Timing of revenue recognition						
Products and services transferred over time	17,487,184	16,033,976	8,490,711	8,020,945	30,418,145	28,319,512
Revenue from contracts with customers	**17,487,184**	**16,033,976**	**8,490,711**	**8,020,945**	**30,418,145**	**28,319,512**

Notes to the Financial Statements for 2023

5. Revenue (continued)

(c) Contract balances

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

'000 AMD	*Note*	*31 December 2023*	*31 December 2022*
Receivables, which are included in 'trade and other receivables'	14	6,730,518	5,775,367
Contract liabilities	21	543,918	379,251

The contract liabilities relate to the advance consideration received from customers for connecting to water supply and wastewater removal network of AMD 276,534 thousand (2022: AMD 172,112 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 267,384 thousand (2022: AMD 218,905 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 cusomters 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 performes activities related to connecting its cutomers 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.

Notes to the Financial Statements for 2023

6. Cost of sales

'000 AMD	*2023*	*2022*
Labour, wages and related taxes	4,311,473	4,308,760
Depreciation and amortisation	3,769,315	3,331,764
Outsourced construction and related services	2,684,710	2,698,559
Electricity	2,436,976	2,469,046
Materials	2,208,525	2,030,891
Repair and maintenance	917,521	847,659
Resource and environmental fees	176,455	173,101
Security	173,564	198,853
Insurance	62,913	64,682
Other	196,346	205,665
	16,937,798	**16,328,980**

For the year ended 31 December 2023 outsourced construction and related services of AMD 2,684,710 thousand (2022: AMD 2,698,559 thousand), materials of AMD 1,363,879 thousand (2022: AMD 1,187,960 thousand) and labor, wages and related taxes of AMD 391,661 thousand (2022: AMD 378,072 thousand) were attributable to the cost of construction or upgrade service activities.

7. Distribution expenses

'000 AMD	*2023*	*2022*
Wages, salaries and related taxes	3,126,117	3,048,918
Collection fees	389,207	331,906
Rent	88,892	83,539
Materials	87,676	95,726
Depreciation and amortisation	38,357	32,281
Advertising	19,492	19,839
Repairs and maintenance	4,352	2,710
Other	188,968	156,913
	3,943,061	**3,771,832**

8. Administrative expenses

'000 AMD	*2023*	*2022*
Wages, salaries and related taxes	1,079,200	994,841
Professional fees	523,386	456,846
Utilities and communication	92,888	99,694
License fees for use of "Veolia" marks and domain names	75,040	69,005
Repairs and maintenance	57,286	47,281
Representative and travel expenses	51,346	23,293
Rent expenses	50,979	50,892
Depreciation and amortization	31,248	54,229
Public services regulations fees	26,762	21,970
Office expenses	5,769	3,534
Other	203,340	167,931
	2,197,244	**1,989,516**

9. Other expenses

'000 AMD	*2023*	*2022*
Penalties and fines	245,988	54,917
Provided grants	30,450	6,100
Non-refundable taxes	21,270	4,703
Write off of fixed assets	18,835	263
Operating guarantee	4,234	4,234
Other	68,230	69,944
	389,007	**140,161**

Notes to the Financial Statements for 2023

10. Other income

’000 AMD	2023	2022
Rule violations	194,535	205,982
Proceeds from sale of electricity	25,641	–
Water transportation services	22,163	18,283
Insurance redemnification	10,286	14,197
Net proceeds from sale of water meters	9,902	–
Damage indemnification	8,281	1,885
Proceeds from grants	4,218	2,890
Other	43,710	43,727
	318,736	**286,964**

11. Finance income and finance costs

’000 AMD	2023	2022
Interest income under the effective interest method on bank balances (current accounts)	620,640	496,635
Net foreign exchange gain	–	894,624
Finance income	**620,640**	**1,391,259**
Financial liabilities measured at amortised cost – interest expense	(224,649)	(104,794)
Net foreign exchange loss	(115,971)	–
Unwind of discount on liability under Concession Agreement (see Note 21, 26)	(4,438,331)	(4,372,213)
Unwind of discount on Support Assets return liability (see Note 22)	(369,299)	(308,412)
Lease liabilities – interest expense	(60,558)	(11,266)
Finance costs	**(5,208,808)**	**(4,796,685)**
Net finance costs recognised in profit or loss	**(4,588,168)**	**(3,405,426)**

12. Income tax expense

(a) Amounts recognised in profit or loss

The Company’s applicable tax rate is the income tax rate of 18% (2022: 18%).

’000 AMD	2023	2022
Current tax expense		
Current year	(1,179,774)	(657,748)
Deferred tax benefit		
Origination and reversal of temporary differences	578,340	483,779
Change in recongised deductible temporary differences due to write-down or reversal of deferred tax assets	–	(31,734)
Total tax expense	**(601,434)**	**(205,703)**

Reconciliation of effective tax rate:

	2023		2022	
	’000 AMD	*%*	*’000 AMD*	*%*
Profit before income tax	2,486,654		2,275,326	
Tax at applicable tax rate	447,598	18.0	409,559	18.0
Net non-taxable income/ (non-deductible expenses)	153,836	6.2	(203,855)	(9.0)
	601,434	**24.2**	**205,704**	**9.0**

Notes to the Financial Statements for 2023

12. Income tax expense (continued)

(b) Recognised deferred tax assets and liabilities

	Assets		*Liabilities*		*Net*	
'000 AMD	***31 December 2023***	***31 December 2022***	***31 December 2023***	***31 December 2022***	***31 December 2023***	***31 December 2022***
Property and equipment	41,255	90,949	–	–	41,255	90,949
Intangible assets	5,601,175	5,995,666	–	–	5,601,175	5,995,666
Right of use asset	–	–	(151,207)	(34,637)	(151,207)	(34,637)
Trade and other receivables	657,338	662,216	–	–	657,338	662,216
Liabilities under concession agreement	–	–	(4,588,492)	(5,498,673)	(4,588,492)	(5,498,673)
Provision for Support Assets	–	–	(174,419)	(286,341)	(174,419)	(286,341)
Trade and other payable	281,034	256,548	–	–	281,034	256,548
Grant received assets	2,076	2,835	–	–	2,076	2,835
Additionally paid in capital	–	–	(15,148)	(15,687)	(15,148)	(15,687)
Lease liabilities	132,968	35,364		–	132,968	35,364
Net tax (asset)/liability	**6,715,846**	**7,043,578**	**(4,929,266)**	**(5,835,338)**	**1,786,580**	**1,208,240**

(c) Movement in deferred tax balances

'000 AMD	***1 January 2023***	***Recognised in profit or loss***	***31 December 2023***
Property and equipment	90,949	(49,694)	41,255
Intangible assets	5,995,666	(394,491)	5,601,175
Right of use asset	(34,637)	(116,570)	(151,207)
Trade and other receivables	662,216	(4,878)	657,338
Liabilities under Concession Agreement	(5,498,673)	910,181	(4,588,492)
Provision for Support Assets	(286,341)	111,922	(174,419)
Trade and other payable	256,548	24,486	281,034
Grant received assets	2,835	(759)	2,076
Additionally paid in capital	(15,687)	539	(15,148)
Lease liabilities	35,364	97,604	132,968
Net tax asset	**1,208,240**	**578,340**	**1,786,580**

'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	**756,195**	**452,045**	**1,208,240**

Notes to the Financial Statements for 2023

13. Property and equipment

'000 AMD	*Machinery and equipment*	*Motor vehicles*	*Fixtures and fittings*	*Computer equipment*	*Other*	*Total*
Cost						
Balance at 1 January 2022	1,857,078	2,463,414	625,026	226,034	105,097	5,276,649
Additions	180,241	133,713	116,051	41	170,687	600,733
Disposals	(75,083)	(28,200)	(188)	(68)	(400)	(103,939)
Transfers	16,673	175,204	(69,651)	66,181	(188,407)	–
Balance at 31 December 2022	**1,978,909**	**2,744,131**	**671,238**	**292,188**	**86,977**	**5,773,443**
Balance at 1 January 2023	1,978,909	2,744,131	671,238	292,188	86,977	5,773,443
Additions	296,333	73,204	84,285	26	350,056	803,904
Disposals	(69,906)	(31,378)	(45,808)	(695)	(3,448)	(151,235)
Transfers	(896)	316,635	1,023	1,200	(317,962)	–
Balance at 31 December 2023	**2,204,440**	**3,102,592**	**710,738**	**292,719**	**115,623**	**6,426,112**
Depreciation						
Balance at 1 January 2022	1,493,993	1,706,306	438,142	208,690	49,722	3,896,853
Depreciation for the year	87,862	180,606	52,012	29,315	3,231	353,026
Disposals	(19,420)	(27,421)	(122)	(68)	–	(47,031)
Transfers	1,245	108	(1,353)	–	–	–
Balance at 31 December 2022	**1,563,680**	**1,859,599**	**488,679**	**237,937**	**52,953**	**4,202,848**
Balance at 1 January 2023	1,563,680	1,859,599	488,679	237,937	52,953	4,202,848
Depreciation for the year	77,711	156,268	49,542	24,498	2,100	310,119
Disposals	(8,817)	(21,637)	(43,266)	(695)	(2,201)	(76,616)
Transfers	44	(11)	(33)	–	–	–
Balance at 31 December 2023	**1,632,618**	**1,994,219**	**494,922**	**261,740**	**52,852**	**4,436,351**
Carrying amounts						
At 1 January 2022	363,085	757,108	186,884	17,344	55,375	1,379,796
At 31 December 2022	**415,229**	**884,532**	**182,559**	**54,251**	**34,024**	**1,570,595**
At 31 December 2023	**571,822**	**1,108,373**	**215,816**	**30,979**	**62,771**	**1,989,761**

Depreciation expense of AMD 242,833 thousand (2022: AMD 268,835 thousand) has been charged to cost of sales, AMD 38,357 thousand (2022: AMD 32,281 thousand) to distribution expenses and AMD 28,929 thousand (2022: AMD 51,910 thousand) to administrative expenses.

Notes to the Financial Statements for 2023

14. Intangible assets

'000 AMD	*Concession intangible assets*	*Other*	*Total*
Cost			
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	**46,998,758**	**169,848**	**47,168,606**
Balance at 1 January 2023	46,998,758	169,848	**47,168,606**
Additions	4,692,742	12,773	**4,705,515**
Disposals	(17,112)	–	**(17,112)**
Balance at 31 December 2023	**51,674,388**	**182,621**	**51,857,009**
Amortisation			
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	**14,873,837**	**119,008**	**14,992,845**
Balance at 1 January 2023	14,873,837	119,008	**14,992,845**
Amortisation for the year	3,369,824	19,673	**3,389,497**
Balance at 31 December 2023	**18,243,661**	**138,681**	**18,382,342**
Carrying amounts			
At 1 January 2022	31,212,312	69,673	31,281,985
At 31 December 2022	**32,124,921**	**50,840**	**32,175,761**
At 31 December 2023	**33,430,727**	**43,940**	**33,474,667**

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 252,490 thousand (2022: AMD 277,127 thousand) represent change in estimate of provision for Support Assets return liability.

(a) Amortisation

Amortization expense of AMD 3,387,179 thousand (2022: AMD 3,039,381 thousand) has been charged to cost of sales and AMD 2,319 thousand (2022: AMD 2,319 thousand) to administrative expenses.

15. Leases

(a) Right of use assets

'000 AMD	*2023*	*2022*
	Machinery and equipment	*Machinery and equipment*
Balance as of 01 January	192,430	–
Additions	786,913	215,978
Depreciation	(139,303)	(23,548)
Balance as of 31 December	**840,040**	**192,430**

(b) Amounts recognised in profit or loss

'000 AMD	*2023*	*2022*
Interest on lease liabilities	60,558	11,266
	60,558	**11,266**

Notes to the Financial Statements for 2023

15. Leases (continued)

(c) Amounts recognised in statement of cash flows

’000 AMD	*2023*	*2022*
Lease payments	154,539	23,980
	154,539	**23,980**

(d) Reconciliation of movements of lease liabilities to cash flows

	2023 *Lease liabilities*	*2022* *Lease liabilities*
Balance at 1 January	203,264	–
Changes from financing cash flows		
Lease principal payments	(93,981)	(12,714)
Total changes from financing cash flows	**(93,981)**	**(12,714)**
New leases	**786,913**	**215,978**
Other changes		
Liability-related		
Interest expense	60,558	11,266
Interest paid	(60,558)	(11,266)
Total liability-related other changes	**–**	**–**
Balance at 31 December	**896,196**	**203,264**

The Company has recognised lease principal and interest payments in the statement of cash flows under financing acitivites. Prior year figures in amount of AMD 12,714 thousand are also reclassified accordingly.

16. Inventories

’000 AMD	*2023*	*2022*
Spare parts, materials and consumables	3,008,711	2,775,534
Other	81,393	102,596
	3,090,104	**2,878,130**

17. Trade and other receivables

’000 AMD	*2023*	*2022*
Trade and other financial assets		
Trade receivables:		
Households	7,954,335	7,082,910
Legal entities	3,074,945	2,502,786
Other receivables	588,735	525,009
Allowance for impairment on trade and other receivables	(4,421,496)	(4,291,103)
Total trade and other financial assets	**7,196,519**	**5,819,602**
Trade and other non-financial assets		
Taxes receivables	70,431	74,886
Prepayments given	187,814	265,582
Total trade and other non-financial assets	**258,245**	**340,468**
Total trade and other receivables	**7,454,764**	**6,160,070**

The Company’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 25.

Notes to the Financial Statements for 2023

18. Cash and cash equivalents

'000 AMD	*2023*	*2022*
Bank balances (current accounts)	8,683,134	8,259,111
Unified tax account balance	58,892	32,090
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**8,742,026**	**8,291,201**

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 25.

19. Capital and reserves

(a) Share capital

Number of shares unless otherwise stated	***Ordinary shares***	
	2023	***2022***
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 2023 the Company did not have reserves available for distribution (31 December 2022: none).

No dividends were declared at the reporting date and during 2023 (2022: 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.

20. 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	*2023*	*2022*
Total liabilities	55,508,395	52,315,187
Less: cash and cash equivalents	8,742,026	8,291,201
Net debt	**46,766,369**	**44,023,986**
Total equity	2,084,633	199,413
Net debt to equity ratio at 31 December	**22.4**	**220.8**

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.

Notes to the Financial Statements for 2023

21. Liabilities under Concession Agreement

'000 AMD	*2023*	*2022*
Balance at 1 January	40,108,626	38,933,602
Decrease in liabilities during the year due to payments made	(2,724,478)	(3,197,189)
Unwind of discount	4,438,331	4,372,213
Balance at 31 December	**41,822,479**	**40,108,626**

The details of measurement of the liabilities under Concession Agreement are described in Note 26.

22. Provision for Support Assets return liability

'000 AMD	*2023*	*2022*
Balance at 1 January	3,102,828	3,071,543
Change in estimate	252,490	(277,127)
Unwind of discount	369,299	308,412
Balance at 31 December	**3,724,617**	**3,102,828**

The details of measurement of the provision for Support Assets return liability are described in Note 26.

23. 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 25.

'000 AMD	*2023*	*2022*
Current liabilities		
Unsecured borrowing from related party	3,694,452	3,976,417
	3,694,452	**3,976,417**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2023		*31 December 2022*	
'000 AMD	*Currency*	*Nominal interest rate*	*Year of maturity*	*Face value*	*Carrying amount*	*Face value*	*Carrying amount*
Unsecured borrowing from related party	USD	FedFund+ 0.75%	On demand	3,694,452	3,694,452	3,976,417	3,976,417
				3,694,452	**3,694,452**	**3,976,417**	**3,976,417**

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

		Liabilities
'000 AMD	Note	*Loans and borrowings*
Balance at 1 January 2023		3,976,417
Changes from financing cash flows		
Repayment of loans and borrowings		(413,450)
Total changes from financing cash flows		**(413,450)**
The effect of changes in foreign exchange rates		**122,151**
Other changes		
Liability-related		
Interest expense	11	224,649
Interest paid		(192,851)
Withholding tax expense from interest paid		(22,464)
Total liability-related other changes		**9,334**
Balance at 31 December 2023		**3,694,452**

Notes to the Financial Statements for 2023

23. Loans and borrowings (continued)

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

'000 AMD	Note	*Liabilities* *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		
Liability-related		
Interest expense	11	104,794
Interest paid		(81,234)
Withholding tax expense from interest paid		(10,479)
Total liability-related other changes		**13,081**
Balance at 31 December 2022		**3,976,417**

24. Trade and other payables

'000 AMD	*2023*	*2022*
Vacation reserve	1,401,164	397,820
Trade payables	1,321,996	1,400,116
Taxes payable	627,917	361,855
Prepayments received from customers	558,329	1,204,129
Salaries and wages	409,527	683,098
Other	240,153	203,537
	4,559,086	**4,250,555**

The Company's exposure to liquidity risk related to trade and other payables is disclosed in Note 25.

25. 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.

Notes to the Financial Statements for 2023

25. Fair values and risk management (continued)

(c) Financial risk management (continued)

(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	***2023***	***2022***
Impairment loss on trade and other receivables arising from contracts with customers	(194,949)	(695,235)

Trade and other 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 and other 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***	
	2023	***2022***
Trade receivables		
Households	4,798,800	4,203,345
Legal entities	1,931,718	1,091,248
	6,730,518	**5,294,593**
Other receivables	466,001	525,009
	7,196,519	**5,819,602**

Expected credit loss assessment for customers

The Company uses an allowance matrix to measure the ECLs of trade and other 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).

25. Fair values and risk management (continued)

(c) Financial risk management (continued)

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables and contract assets from individual customers as at 31 December 2023.

’000 AMD	***Weighted average loss rate***	***Gross carrying amount***	***Loss allowance***	***Credit impaired***
Current (not past due)	4%	2,976,754	122,265	No
1-30 days past due	20%	601,959	122,048	No
31-90 days past due	28%	1,082,160	305,213	No
91-180 days past due	37%	1,219,303	452,993	Yes
181-365 days past due	52%	1,408,813	727,288	Yes
More than 365 days past due	62%	4,329,026	2,691,689	Yes
		11,618,015	**4,421,496**	

The following table provides information about the exposure to credit risk and ECLs for trade and other 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)	4%	2,593,657	111,725	No
1-30 days past due	20%	548,415	110,919	No
31-90 days past due	30%	946,542	280,224	No
91-180 days past due	39%	1,326,080	520,191	Yes
181-365 days past due	63%	1,170,317	735,130	Yes
More than 365 days past due	72%	3,525,694	2,532,914	Yes
		10,110,705	**4,291,103**	

Loss rates are based on actual credit loss experience over the past two years. Considering the short nature of trade and other receivables 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 2023, the aggregate total receivables from these organizations before impairment losses amounted to AMD 704,014 thousand (2022: AMD 610,243 thousand). As at the reporting date, the impairment provision on receivables from these two organizations amounted to AMD 649,839 thousand (2022: 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 and other receivables

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

’000 AMD	***2023***	***2022***
Balance at 1 January	4,291,102	3,605,475
Write-offs	(64,105)	(9,607)
Net remeasurement of loss allowance	194,949	695,235
Balance at 31 December	**4,421,946**	**4,291,103**

Notes to the Financial Statements for 2023

25. Fair values and risk management (continued)

(c) Financial risk management (continued)

Cash and cash equivalents

The Company held bank balances (current accounts) of AMD 8,683,134 thousand at 31 December 2023 (31 December 2022: AMD 8,259,111 thousand), which represents its maximum credit exposure on these assets. The bank balances (current accounts) are held mainly with Amio Bank CJSC, ACBA-Credit Agricole Bank OJSC, Ardshinbank CJSC and VTB Bank Armenia CJSC. 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.

As at 31 December 2023, the Company also holds cash balance on its Unified tax account operated by State Revenue Committee of the Republic of Armenia in the amount of AMD 58,892 thousand (31 December 2022: AMD 32,090 thousand). Per Company’s assessment no impairment loss is recognised on Unified tax account primarily due to its 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 2023

’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	3,694,452	3,694,452	3,694,452	–	–	–	–	–
Liabilities under Concession Agreement	41,822,479	66,276,100	–	–	4,473,500	4,672,500	25,191,400	31,938,700
Lease liability	896,196	1,081,351	–	52,495	278,307	333,968	416,581	–
Trade and other payables	1,826,626	1,826,626	–	1,826,626	–	–	–	–
	48,239,753	**72,878,529**	**3,694,452**	**1,879,121**	**4,751,807**	**5,006,468**	**25,607,981**	**31,938,700**

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
Lease liability	203,264	247,023	–	11,328	56,640	67,968	111,087	–
Trade and other payables	2,966,100	2,966,100	–	2,966,100	–	–	–	–
	47,254,407	**77,216,740**	**3,976,417**	**2,977,428**	**3,807,740**	**4,541,468**	**21,112,187**	**40,801,500**

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

25. Fair values and risk management (continued)

(c) Financial risk management (continued)

(i) 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.

(ii) 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 2023***	***USD-denominated 2022***
Loans and borrowings	(3,694,452)	(3,976,417)
Cash and cash equivalent	37,223	150,634
	(3,657,229)	**(3,825,783)**

The following significant exchange rates applied during the year:

in AMD	***Average rate***		***Reporting date spot rate***	
	2023	***2022***	***2023***	***2022***
USD 1	392.46	434.86	404.79	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 2023		
AMD 10% movement against USD	365,723	(365,723)
31 December 2022		
AMD 10% movement against USD	382,578	(382,578)

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***	
	2023	***2022***
Variable rate instruments		
Financial liabilities	3,694,452	3,976,417

25. Fair values and risk management (continued)

(c) Financial risk management (continued)

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***
2023		
Variable rate instruments	(30,295)	30,295
Cash flow sensitivity (net)	**(30,295)**	**30,295**
2022		
Variable rate instruments	(32,607)	(32,607)
Cash flow sensitivity (net)	**(32,607)**	**32,607**

26. 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	***2023***	***2022***
Less than one year	4,473,500	3,751,100
Between one and five years	29,863,900	25,474,600
More than five years	31,938,700	40,801,500
	66,276,100	**70,027,200**

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.

26. Concession Agreement (continued)

(a) Concession fee payments to the Grantor (continued)

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 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 acitivites.

(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 2023, the Company has recognised revenue of AMD 30,418,145 thousand (2022: AMD 28,319,512 thousand), consisting of AMD 4,440,250 thousand (2022: AMD 4,264,591 thousand) on construction and AMD 25,836,831 thousand (2022: AMD 23,882,221 thousand) on water supply and wastewater services.

As at 31 December 2023 the Company has recognised an intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement of AMD 4,440,250 thousand (31 December 2022: AMD 4,264,591 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 22).

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.

26. Concession Agreement (continued)

(d) Support Assets (continued)

As at 31 December 2023 and 2022 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 2023 was discounted using the yields of the RA Government Bonds maturing in ten years of 10.77% (2022: 12.01%) as published by Central Bank of Armenia. The difference between the return liability as at 31 December 2023 and 2022 and the fair value of Support Assets was presented as a deduction from concession intangible assets.

27. 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.

Notes to the Financial Statements for 2023

27. Contingencies (continued)

(c) Taxation contingencies (continued)

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.

28. 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	***2023***	***2022***
Salaries and bonuses	129,129	116,092

(c) Other related party transactions

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

'000 AMD	***Transaction value 2023***	***Transaction value 2022***	***Outstanding balance 2023***	***Outstanding balance 2022***
Services received				
Ultimate parent company	(367,784)	(333,441)	(216,913)	(324,446)
Entities under common control	(31,680)	(10,380)	(17,714)	(10,158)
Services provided				
Entities under common control	600	600	180	60
Prepayments for goods and services				
Ultimate parent company	413,190	436,627	–	–
Entities under common control	17,193	150	–	–
Loans received:				
Entities under common control	–	–	(3,694,452)	(3,976,417)
Others:				
Entities under common control	–	–	(145,050)	(134,331)

The loan from the entity under common control bears interest at FedFund+0.75% per annum and is repayable upon demand. During 2023 interest expense of AMD 224,649 thousand was accrued on loans received from the entity under common control (2022: AMD 104,794 thousand).

29. Basis of measurement

The financial statements are prepared on the historical cost basis.

Notes to the Financial Statements for 2023

30. 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.

(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) 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.

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.

(e) 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.

Notes to the Financial Statements for 2023

30. Significant accounting policies (continued)

(f) 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.

(i) 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.

(ii) 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.

Notes to the Financial Statements for 2023

30. Significant accounting policies (continued)

(g) 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.

(h) 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.

Notes to the Financial Statements for 2023

30. Significant accounting policies (continued)

(h) Financial instruments (continued)

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.

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.

(iii) 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.

(i) 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.

(j) 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.

Notes to the Financial Statements for 2023

30. Significant accounting policies (continued)

(j) Impairment (continued)

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.

Notes to the Financial Statements for 2023

30. Significant accounting policies (continued)

(j) Impairment (continued)

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.

The Management runs the Company as one CGU.

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.

(k) 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.

(l) 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.

The lease liability is measured at amortised cost using the effective interest method.

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.

31. 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.

31. New standards and interpretations not yet adopted (continued)

(a) Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Company's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company's financial statements.

(b) IFRS 17 Insurance contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Limited scope exceptions apply.

The Company has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

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

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Company's financial statements.

(d) International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

a) Quantitative information such as:
  - An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
  - An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Company has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Company has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Company's financial statements at 31 December 2023.

Notes to the Financial Statements for 2023

31. New standards and interpretations not yet adopted (continued)

(e) Definition of Accounting Estimates – Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the Company's financial statements.

(f) Other standards

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

- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback;
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7.