

SHTIGEN
LIMITED LIABILITY COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
in Armenian Drams
31 December 2022

YEREVAN 2023

CONTENTS

Independent Auditor's Report.....	3
Consolidated Statement of Profit or Loss and other Comprehensive Income.....	5
Consolidated Statement of Financial Position.....	6
Consolidated Statement of Changes in Equity.....	7
Consolidated Statement of Cash Flows.....	8
Notes attached to the Consolidated Financial Statements.....	9

28.12.2023
N 032325



CONFIRMED BY:

[Signature]
N. Gevorgyan
General Director
Baker Tilly Armenia CJSC

INDEPENDENT AUDITOR'S REPORT

To Participant of
Shtigen LLC

Opinion

We have audited the accompanying consolidated financial statements of Shtigen LLC (hereafter, "the Company") and its subsidiaries (hereafter, "the Group"), which comprise the Consolidated Statement of Financial Position as at 31 December 2022, the Consolidated Statement of Profit or Loss and other Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policy.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

ADVISORY • ASSURANCE • ACCOUNTING • TAX

Baker Tilly Armenia CJSC is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information or business activities of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

Auditor

M. Mkrtchyan

28.12.2023



Consolidated Statement of Profit or Loss and other Comprehensive Income
For the year ended 31 December 2022

		<u>AMD ths.</u>	
	Notes	2022	2021
Revenue	5	4,621,511	3,350,567
Cost of sales	6	<u>(3,693,236)</u>	<u>(2,670,056)</u>
Gross profit		928,275	680,511
Realization expenses	7	(303,236)	(237,318)
Administrative expenses	8	(511,796)	(304,127)
Other income	9	115,649	1,417
Other expense	10	<u>(99,571)</u>	<u>(27,645)</u>
Operating profit		129,322	112,838
Gain from foreign exchange differences, net		24,864	450
Financial expense, net	11	<u>(34,004)</u>	<u>(22,683)</u>
Share of loss of the affiliated entity		(150)	-
Profit before taxation		120,032	90,605
Income tax expense	12	<u>(31,723)</u>	<u>(19,947)</u>
Net profit after income tax		88,309	70,658
Other comprehensive income		-	-
Other comprehensive result		-	-
Total comprehensive result		<u>88,309</u>	<u>70,658</u>

The attached notes 1-28 are the integral part of these Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2022

		<u>AMD ths.</u>	
	<i>Notes</i>	<u>2022</u>	<u>2021</u>
ASSETS			
<i>Non-Current Assets</i>			
Property, Plant and Equipment	13	137,879	85,251
Intangible assets		8,311	4,781
Time deposits	18	5,021	-
Deferred tax assets	14	12,798	7,698
Investments in unaffiliated entities	15	15,972	7,733
Total Non Current Assets		179,981	105,463
<i>Current Assets</i>			
Inventory	16	1,356,900	1,448,103
Trade and other receivables	17	1,005,210	657,639
Loans provided		16,370	3,450
Time deposits	18	43,041	-
Amounts due from financial institutions	19	10,000	64,279
Cash and Bank balances	20	10,287	56,532
Total Current Assets		2,441,808	2,230,003
TOTAL ASSETS		2,621,789	2,335,466
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	21	50	50
Accumulated profit		156,196	67,378
		156,246	67,428
Non-controlling interest		(1,279)	(770)
Total equity		154,967	66,658
<i>Non-current liabilities</i>			
Loans and borrowings	22	279,066	409,474
Total Non-current liabilities		279,066	409,474
<i>Current Liabilities</i>			
Loans and borrowings	22	280,739	117,332
Trade and other accounts payable	23	1,885,230	1,726,535
Liability regarding income tax		21,787	15,467
Total Current Liabilities		2,187,756	1,859,334
TOTAL EQUITY AND LIABILITIES		2,621,789	2,335,466

Hayk Shekryan

Director

Date of signature: 28.12.2023



Tigran Gasparyan

Chief Accountant

Representative of Profit Consulting LLC



The attached notes 1-28 are the integral part of these Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	AMD ths.				
	Charter capital	Accumulated profit / (loss)	Total	Non-controlling interest	Total equity
Balance as of 01 January 2021	50	15,413	15,463	-	15,463
<i>Comprehensive income</i>					
Profit for the year	-	71,455	71,455	(797)	70,658
Total comprehensive result	-	71,455	71,455	(797)	70,658
<i>Transactions with Owners recorded directly in Equity</i>					
Dividends	-	(19,490)	(19,490)	-	(19,490)
Total transactions with Owners	-	(19,490)	(19,490)	-	(19,490)
<i>Changes in non-controlling interest</i>					
Investments	-	-	-	27	27
Balance as of 31 December 2021	50	67,378	67,378	(770)	66,658
Balance as of 01 January 2022	50	67,378	67,378	(770)	66,658
<i>Comprehensive income</i>					
Profit for the year	-	88,818	88,818	(509)	88,309
Total comprehensive result	-	88,818	88,818	(509)	88,309
<i>Transactions with Owners recorded directly in Equity</i>					
Dividends	-	-	-	-	-
Total transactions with Owners	-	-	-	-	-
<i>Changes in non-controlling interest</i>					
Investments	-	-	-	-	-
Balance as of 31 December 2022	50	156,196	156,196	(1,279)	154,967

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022	AMD ths. 2021
Annual result	88,309	70,658
<i>Adjustments for:</i>		
Depreciation and amortization	38,058	29,375
Receivables write-off	62,510	-
Payables write-off	(86,007)	-
Disposal of Property and equipment	4,439	-
Financial expense, net	34,004	22,683
Allocations to the leave reserve	28,332	19,307
Income tax expense	31,723	19,947
Gain from foreign exchange differences	(24,864)	(450)
Cash flows from operating activity before changes in working capital	176,504	162,435
<i>Changes in:</i>		
Inventory	91,203	780,065
trade and other receivables	(517,279)	(321,358)
trade and other payables	335,004	(623,628)
Cash flows from operating activity	85,432	(2,486)
Income tax paid	(30,503)	(11,478)
Net cash flows from operating activity	54,929	(13,964)
Cash flows from investing activity		
Acquisition of property and equipment and intangible assets	(98,656)	(54,450)
Investment in unaffiliated entities	(8,239)	(1,319)
Loans provided	(12,920)	(650)
Deposits (invested) / collected	(48,062)	20,000
Dividends received	24,619	-
Interest income received	6,537	3,263
Net cash flows from investing activity	(136,721)	(33,156)
Cash flows from financing activity		
Loans received, net	77,642	146,375
Interest paid	(40,541)	(25,946)
Dividends paid	-	(19,490)
Net cash flows from financing activity	37,101	100,939
Net (decrease) / increase in cash and cash equivalents	(44,691)	53,819
Foreign exchange effect on cash and cash equivalents	(1,554)	(1,482)
Cash and cash equivalents at the beginning of the year	56,532	4,195
Cash and cash equivalents at the end of the year	10,287	56,532

Notes attached to the consolidated financial statements

For the year ended 31 December 2022

1. Nature of operations and general information

The consolidated financial statements of the year ended December 31, 2021 include the financial statements of Shtigen LLC (hereafter, "the Company") and its subsidiaries Enorex CJSC, Andron CJSC and Shtigen Advisory LLC (all together hereafter referred to as "the Group").

Shtigen LLC was established under the laws of the Republic of Armenia in 2011 by the citizen of the Republic of Armenia Hayk Valerik Shekyan. The Company has been registered at the address: RA, 0033, Yerevan, 119 Viktor Hambardzumyan Str., Apt. 23.

The main goal of the Company's activity is the construction of economical and safe solar energy systems. The Company has designed, built and been maintaining the largest solar thermal plant in the region (Grand Sport), as well as the largest solar power plants in Armenia (Green Energy, ArSun, Solar 5).

Subsidiaries were established in 2021 under the laws of the Republic of Armenia. The Company owns 90% of the shares of Enorex CJSC and Andron CJSC and 51% of the shares of Shtigen Advisory LLC. The Company also owns 30% of the shares of Shtigen Ventures CJSC. The latter was classified as the Company's affiliated entity.

2. Basis for the preparation

2.1 Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis of recognition

The consolidated financial statements have been prepared on a historical cost basis.

2.2 Functional and presentation currency

The national currency of the Republic of Armenia is Armenian Dram (AMD), which is the Group's functional currency and in which the consolidated financial statements are presented. The overall financial information presented in Armenian Drams is rounded to the nearest thousandth.

2.3 Use of estimates and judgements

Preparation of these consolidated financial statements in conformity with IFRS requires from the management to make a number of important judgments, estimates and assumptions that affect the application of the accounting policy, as well as the reported amounts of assets, liabilities, income and expense. Estimates and the underlying assumptions are based on historical experience and other factors that are considered reasonable based on management's best knowledge of current events and actions. Actual results may differ from those estimates.

Estimates and the underlying assumptions are regularly reviewed. Revisions to accounting estimates are recognized in the period of the revision if the estimates affect only that period. If the effect relates to current and future periods, revisions are recognized in both current and future periods.

Significant areas of greater complexity and requiring greater judgment or areas where assumptions and estimates are material to the consolidated financial statements are identified below:

Useful lives of Property and Equipment

Management has made an estimate of the useful lives of fixed assets. Management believes that the estimated useful lives of fixed assets do not differ significantly from the economic lives of those assets. If the actual useful lives of property and equipment differ from estimates, the consolidated financial statements may change materially.

Measurement: provision for bad and doubtful debts

The Group reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment records and the customer's general financial position. If there are indications of non-recovery of the debt, the recoverable amount is calculated and a provision is formed for the corresponding bad and doubtful debts. The amount of the provision is reflected in profit or loss. Credit risk assessment is an ongoing process, and the methodology and assumptions used to estimate the provision are periodically reviewed and adjusted accordingly.

Provision for obsolete and slow moving inventory

The Group examines its inventory records for evidence of its marketability and of net realizable value at the time of disposal. The allowance for obsolete and slow-moving inventory is based on management's past experience, taking into account the cost of the inventory, as well as the batch movement and level of each class of inventory.

The amount of the provision is recognized in profit or loss. Observation of the net realizable value of inventory is an ongoing process, and the methodology and assumptions used to estimate the provision for obsolete and slow-moving inventory are periodically reviewed and adjusted accordingly.

3. Accounting policy

The following accounting policies are applied consistently for all years presented in these consolidated financial statements and in the presentation of the Group's financial position. The accounting policy is applied consistently by all the entities of the Group.

3.1 Basis of consolidation

Subsidiaries are those enterprises, which are controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date when the control effectively commences until the date that the control effectively ceases. Intragroup balances and unrealized income and expenses from intragroup transactions are eliminated when preparing the consolidated financial statements.

Adjustments are made to the financial statements of subsidiaries to align their policies with those of other members of the Group, if needed.

3.2 Revenue recognition

Revenue is the amount received for goods and services provided in the ordinary course of business and is measured at the fair value of the consideration received or receivable less discounts and sales taxes. The revenue received by the Group is recognized on the following basis:

Sale of goods

Sale of goods is recognized after the significant risks and rewards of ownership of the goods have been transferred to the customer, which generally occurs when the Group sells or ships the goods to the customer, the goods are accepted by the customer, and the collectability of the related receivable is justified.

Rendering services

Sale of services is recognized in the accounting period in which the provision of services per separate transaction is completed, which is estimated as the ratio of the actually rendered service to the total service provided.

3.3 Finance income and expense

The Group's financial income and expense consist of the following:

- Interest income
- Interest expense
- Net gain or loss arising from exchange rate differences on financial assets and financial liabilities

Interest income or expense is recognized using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset are part of the cost of that asset (are capitalized).

3.4 Employee compensation

Salaries and other employee benefits are measured on an undiscounted basis and expensed in the period in which the related service is rendered.

3.5 Foreign currency transactions

Foreign currency transactions are converted into the Group's functional currency at the exchange rate set by the Central Bank of the Republic of Armenia (CBA) as of the date of the transaction.

At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the Group's functional currency at the rate defined by the Central Bank of Armenia prevailing on the reporting date: 393.57 AMD for 1 US Dollar and 420.06 AMD for 1 Euro as of 31 December 2022 (31 December 2021: 480.14 AMD for 1 US Dollar and 542.61 AMD for 1 Euro). Non-monetary items are not retranslated and are measured at the historical cost (translated using the exchange rates as at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of foreign currency transactions and retranslation of monetary items denominated in foreign currencies are included in profit or loss for the period.

3.6 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated 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.

When an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant 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.

Cost of replacing a component of an item of property and equipment that is accounted for separately is recognized in the carrying amount of the item if it is probable that future economic benefits associated with the component will flow to the Group, and its value can be measured reliably. Carrying amount of the replaced component is derecognised. Daily maintenance costs of the item of property and equipment are recognized in profit or loss as incurred.

Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use; and in case of internally constructed assets, from the time when the construction has been completed and the asset is ready for use. Depreciation is calculated based on the asset's original cost minus its estimated residual value.

Depreciation is 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, except for vehicles used in international cargo transportation, which are depreciated using unit of production method, based on kilometers used.

Land is not depreciated.

The estimated useful lives of property and equipment are presented below:

Machines and equipment	- 5 years
Production and household equipment	- 5 years
Transportation means	- 8 years
Computers	- 1 year

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

3.7 Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Future costs are capitalized only when they increase the future economic benefits associated with the related asset. All other costs are recognized in profit or loss as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they become available for use, as that method most accurately reflects the pattern of use of the future economic benefits associated with the asset. The estimated useful lives for intangible assets are 10 years. Amortization calculation methods, useful lives and residual values are reviewed at the end of each financial year and adjusted, if necessary.

3.8 Inventory

Inventory is stated at the lower of cost and net realisable value. The cost is determined using the weighted average method, which includes purchase cost, production or replacement costs and costs associated with bringing the inventory to current place and condition. In the case of manufactured inventories or work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less costs of inventory replenishment and selling arrangements.

3.9 Financial instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI), and measured at fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policy related to financial liabilities.

Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group 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.

Classification and subsequent measurement**Financial assets**

On initial recognition, a financial asset is classified as measured at:

- Amortized cost;
- FVOCI – for debt investments;
- FVOCI – for equity investments; or
- FVTPL.

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

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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

Financial assets - Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

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

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

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

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

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

- contingent events that would change the amount or timing of cash flows;
- prepayment and extension features.

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

Financial assets – Subsequent measurement, gains and losses

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.

Financial liabilities – classification, subsequent measurement, gains and losses

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

Modification of financial assets and financial liabilities**Financial assets**

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

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

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

- change in the currency of the financial asset;
- change in collateral or other credit enhancement.

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

Financial liabilities

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

If a modification (or exchange) does not result in the de-recognition of the financial liability the Group applies an accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the de-recognition of the financial asset, i.e. the Group recognizes any adjustment to the amortized cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

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

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

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

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

De-recognition

Financial assets

The Group derecognizes 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes 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 recognized at fair value.

On de-recognition 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 recognized in profit or loss.

Offsetting

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

3.10 Impairment

Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Non-derivative financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at

FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

For assets within the scope of impairment model under IFRS 9, impairment losses are generally expected to increase and become more variable.

The Group recognizes loss allowances for ECLs on financial assets measured at amortized cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following instruments, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets 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 Group 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 Group's historical experience and informed credit assessment, including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 365 days past due.

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); 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.

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group 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 Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI 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 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortized 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 Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group 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 Group's procedures for recovery of amounts due.

Financial assets measured at amortized cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified.

Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by collecting together the assets with similar risk characteristics.

In assessing collective impairment, the Group has used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognized in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss was reversed through profit or loss.

3.11 Leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), at inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

3.12 Provisions

A provision is recognised if, as a result of a past event, the Group 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 a finance cost.

3.13 Share capital

Equity instruments issued by the Group are recorded at the nominal value.

3.14 Dividends

Dividends are recognized as a liability in the period in which they are declared.

3.15 Comparative data

Comparative data is adjusted, if needed, to be in line with the changes in current year presentation.

4. Adoption of new and revised standards

As of the date of authorization of these consolidated financial statements, a number of new standards, amendments and interpretations to the existing Standards have been published which are not yet effective. The Group did not early adopt any of these pronouncements.

Management anticipates that applicable new standards and interpretations will be adopted by the Group in the reporting period following the date of their entry into force.

Management does not anticipate a material impact on the Group's consolidated financial statements from these Amendments, which are presented below:

- *Reference to the Conceptual Framework (Amendments to IFRS 3);*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*

5. Revenue

	2022	AMD ths. 2021
Sale of goods	4,376,204	3,332,235
Provision of services	245,307	18,332
	<u>4,621,511</u>	<u>3,350,567</u>

6. Cost of sales

	2022	AMD ths. 2021
Materials	2,709,931	2,389,024
Services acquired	843,743	182,568
Employees compensation	130,141	89,154
Depreciation and amortization	9,421	9,310
	<u>3,693,236</u>	<u>2,670,056</u>

7. Realization expenses

	2022	AMD ths. 2021
Information service	35,230	95,477
Advertising and marketing	36,454	10,289
Fees	53,226	32,055
Transportation expenses	69,227	23,817
Employees compensation	67,746	45,877
Leasing	30,903	17,298
Depreciation and amortization	4,264	7,427
Insurance	4,296	5,070
Other expenses	1,890	8
	<u>303,236</u>	<u>237,318</u>

8. Administrative expenses

	2022	AMD ths. 2021
Employees compensation	415,143	226,228
Audit and consulting	21,106	16,834
Banking costs	19,255	33,184
Office and utilities expenses	14,594	7,626
Mailing and telecommunication	3,274	3,093
Depreciation and amortization	24,372	12,637
Business travel and representation expenses	4,573	1,203
Non-refundable taxes	8,290	-
Other expenses	1,189	3,322
	<u>511,796</u>	<u>304,127</u>

9. Other income

	2022	AMD ths. 2021
Income from payables write-off	86,007	-
Income from dividends	24,619	-
Other	5,023	1,417
	<u>115,649</u>	<u>1,417</u>

10. Other expense

	2022	AMD ths. 2021
Allocations to the leave reserve	28,332	19,307
Expense regarding receivables write-off (impairment)	62,510	-
Other expense	8,729	8,338
	<u>99,571</u>	<u>27,645</u>

11. Financial expense, net

	2022	AMD ths. 2021
Interest expense from loans	(40,541)	(25,946)
Interest income from bank accounts	3,485	2,486
Interest income from deposit	3,052	777
	<u>(34,004)</u>	<u>(22,683)</u>

11. Income tax expense

	2022	AMD ths. 2021
Current tax expense	(36,823)	(23,422)
Deferred tax refund (see Note 14)	5,100	3,475
	<u>(31,723)</u>	<u>(19,947)</u>

13. Property and equipment

	Machines and equipment	Transportation means	Production, household equipment, tools	Other fixed assets	AMD ths. Total
Initial value					
01 January 2021	11,802	9,049	45,309	12,440	78,600
Addition	1,940	21,609	9,265	18,763	51,577
Disposal / Write-off	(758)	-	(37)	(121)	(916)
31 December 2021	12,984	30,658	54,537	31,082	129,261
Addition	8,186	-	1,100	81,410	90,696
Disposal, Write-off	(1,107)	(6,908)	-	(485)	(8,500)
31 December 2022	20,063	23,750	55,637	112,007	211,457
Depreciation					
01 January 2021	9,901	1,304	2,423	3,179	16,807
Annual depreciation	2,124	7,578	13,220	4,282	27,204
Disposal, Write-off	-	-	-	(1)	(1)
31 December 2021	12,025	8,882	15,643	7,460	44,010
Annual depreciation	4,550	4,490	14,044	10,545	33,629
Disposal, Write-off	(1,107)	(2,762)	-	(192)	(4,061)
31 December 2022	15,468	10,610	29,687	17,813	73,578
Net Carrying Amount					
31 December 2021	959	21,776	38,894	23,622	85,251
31 December 2022	4,595	13,140	25,950	94,194	137,879

Some items of the Group's equipment have been pledged.

Depreciation expense of fixed assets was distributed as follows:

	2022	AMD ths. 2021
Cost of sales	9,121	9,162
Administrative	20,244	10,672
Realization	4,264	7,370
	33,629	27,204

14. Deferred tax assets

	2022	AMD ths. 2021
Opening balance	7,698	4,223
Recognized in financial results (see Note 12)	5,100	3,475
Closing balance	12,798	7,698

Movement of deferred tax assets and liabilities

	2021	Recognised in financial results	AMD ths. 2022
Unused leave reserve	7,698	5,100	12,798
Total deferred tax asset	7,698	5,100	12,798
Net deferred tax asset	7,698	5,100	12,798

	2020	Recognised in financial results	AMD ths. 2021
Unused leave reserve	4,223	3,475	7,698
Total deferred tax asset	4,223	3,475	7,698
Net deferred tax asset	4,223	3,475	7,698

15. Investments in unaffiliated entities

Entity	2022		2021	
	Amount (AMD ths.)	Number of shares, share size (%)	Amount (AMD ths.)	Number of shares, share size (%)
Armeconombank OJSC	14,725	823 shares	7,723	463 shares
ITC LLC	570	19%	10	19%
REP QAR LLC	673	19%	-	-
Solar-5 LLC	4	19%	-	-
	<u>15,972</u>		<u>7,733</u>	

16. Inventory

	2022	AMD ths. 2021
Goods in the warehouse	3,128	50,035
Work in process	1,906	-
Raw materials, materials	1,351,866	1,398,068
	<u>1,356,900</u>	<u>1,448,103</u>

17. Trade and other receivables

	2022	AMD ths. 2021
Trade receivables	826,827	434,462
Advances provided	176,653	221,911
Accounts receivable regarding taxes	1,592	1,266
Other receivables	138	-
	<u>1,005,210</u>	<u>657,639</u>

Fair values of receivables equal to their carrying amounts. During the reporting period, trade receivables of AMD 52,097 thousand and advance payments of AMD 10,413 thousand were written off. There were no write-offs in 2021.

18. Time deposits

Currency	2022	AMD ths. 2021
Armenian Drams	48,062	-
	<u>48,062</u>	<u>-</u>

Disclosure of time deposits is as follows:

Bank	Principal	Currency	Date of deposits	Date of return	Annual interest %	Balance as at 31 December 2022	
						(AMD ths.)	
						Principal	Accrued %
Armswissbank CJSC	20,000,000	AMD ths.	04/04/2022	19/03/2023	10.25%	20,000	1,569
Armswissbank CJSC	20,000,000	AMD ths.	20/04/2022	19/04/2023	10.25%	20,000	1,472
Armswissbank CJSC	5,010,000	AMD ths.	22/12/2022	15/03/2024	8.25%	5,010	11
						45,010	3,052

19. Amounts due from financial institutions

The Group carries out credit sales. To secure credit sales, the bank freezes some funds in the Group's settlement accounts.

20. Cash and Bank balances

	2022	AMD ths. 2021
Cash	5,201	4,409
Bank accounts	5,086	52,123
	10,287	56,532

21. Share capital

As at 31 December 2022, Share Capital comprised 50,000 Armenian Drams (2021: 50,000 AMD). Share Capital consists of 50 shares at a nominal value of 1,000 Armenian Drams each.

The Company's only participant is RA citizen Hayk Valerik Shekyan.

22. Loans and borrowings

	2022	AMD ths. 2021
Non-current		
Bank loans secured by a collateral	74,547	126,660
Long term borrowing	204,519	282,814
	279,066	409,474
Current		
Bank loans secured by a collateral	280,691	117,332
Short term borrowing	48	-
	280,739	117,332
Total loans and borrowings	559,805	526,806

Terms of loans and borrowings are presented below

	Currency	Repayment date	Nominal interest	2022	AMD ths. 2021
Secured bank loan (credit line)	AMD	05.03.22	12.50%	-	13,000
Secured bank loan (credit line)	AMD	03.10.23	12.50%	28,600	-
Secured bank loan	AMD	07.03.22	8.50%	-	12,398
Secured bank loan	AMD	22.04.22	8.50%	-	1,781
Secured bank loan	AMD	22.07.22	9.38%	-	8,821
Secured bank loan	AMD	19.09.22	8.50%	-	7,875
Secured bank loan	AMD	30.12.22	8.50%	-	8,460
Secured bank loan	AMD	20.03.23	8.50%	2,010	9,639
Secured bank loan	AMD	14.05.27	8.50%	87,312	74,260
Secured bank loan	AMD	01.11.23	13.00%	20,000	20,000
Secured bank loan	AMD	27.11.23	12.50%	38,941	76,619
Secured bank loan (overdraft)	AMD	14.10.22	11.50%	-	11,139
Secured bank loan (overdraft)	AMD	16.10.23	11.50%	25,377	-
Secured bank loan	USD	31.03.23	8.50%	15,156	-
Secured bank loan	USD	27.04.23	8.50%	8,800	-
Secured bank loan	USD	19.05.23	8.50%	5,035	-
Secured bank loan	USD	19.05.23	8.50%	6,714	-
Secured bank loan	USD	20.06.23	9.75%	4,024	-
Secured bank loan	USD	04.07.23	9.75%	15,737	-
Secured bank loan	USD	26.07.23	9.75%	10,504	-
Secured bank loan	USD	15.09.23	10.25%	17,058	-
Secured bank loan	USD	15.09.23	10.25%	14,539	-
Secured bank loan	USD	18.10.23	10.50%	9,576	-
Secured bank loan	USD	18.10.23	10.50%	5,283	-
Secured bank loan	USD	16.11.23	10.00%	14,473	-
Secured bank loan	USD	20.12.23	9.50%	3,541	-
Secured bank loan	USD	20.12.23	9.50%	13,775	-
Secured bank loan	AMD	18.10.24	14.00%	8,783	-
Unsecured borrowings	AMD	09.12.31	Interest free	5,362	142,217
Unsecured borrowings	USD	23.12.30	Interest free	196,557	138,027
Unsecured borrowings	AMD	05.08.26	Interest free	2,120	2,090
Unsecured borrowings	AMD	13.12.26	Interest free	480	480
Unsecured borrowings	AMD	31.12.23	Interest free	40	-
Unsecured borrowings	AMD	30.11.23	Interest free	8	-
				559,805	526,806

23. Trade and other payables

	2022	AMD ths. 2021
Accounts payable regarding acquisitions	277,409	208,147
Advances received	1,458,801	1,377,355
Taxes payable and mandatory payments	76,913	96,622
Unpaid leave reserve	71,098	42,767
Liabilities towards employees	1,009	1,644
	1,885,230	1,726,535

24. Categories of financial instruments

The carrying amounts of financial assets and liabilities by category are presented below:

Financial assets

	<u>2022</u>	<u>AMD ths, 2021</u>
<i>Financial assets carried at amortised cost</i>		
Trade and other receivables	1,066,128	656,373
Time deposits	48,062	-
Investments in unaffiliated entities	15,972	7,733
Loans provided	16,370	3,450
Amounts due from financial institutions	10,000	64,279
Cash and bank balances	10,287	56,532
	<u>1,166,819</u>	<u>788,367</u>

Financial liabilities

	<u>2022</u>	<u>AMD ths, 2021</u>
<i>Financial liabilities carried at amortised cost</i>		
Loans and borrowings	559,805	526,806
Trade and other payables	1,808,317	1,629,913
	<u>2,368,122</u>	<u>2,156,719</u>

25. Financial risk management

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Management has overall responsibility for the establishment and oversight of the Group's risk management system.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities.

1) Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. This risk arises from financial instruments such as trade and other receivables, loans receivable and cash and cash equivalents at bank.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Loans receivable are provided to related parties. Cash balances are held with high credit quality financial institutions.

Credit exposure

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date is presented below:

	<u>2022</u>	<u>AMD ths, 2021</u>
Trade and other receivables	1,066,128	656,373
Time deposits	48,062	-
Investments in unaffiliated entities	15,972	7,733
Loans provided	16,370	3,450
Amounts due from financial institutions	10,000	64,279
Current bank accounts	5,086	52,123
	<u>1,161,618</u>	<u>783,958</u>

2) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations. Liquidity risk arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the objective of minimizing such losses, such as maintaining sufficient cash and other highly liquid current assets, and ensuring the availability of an adequate amount of committed credit facilities.

The contractual maturities of financial liabilities including the estimated interest payments as of the reporting date are presented below:

31 December 2022

	Carrying amount	Contractual cash flows	Up to 3 months	3-12 months	AMD ths.	
					1-5 years	5-10 years
Loans and borrowings	559,805	606,344	87,967	208,192	76,266	233,919
Trade and other payables	1,885,230	1,885,230	77,922	1,736,210	71,098	-
Liability regarding income tax	21,788	21,788	-	21,788	-	-
	2,466,823	2,513,362	165,889	1,966,190	147,364	233,919

31 December 2021

	Carrying amount	Contractual cash flows	Up to 3 months	3-12 months	AMD ths.	
					1-5 years	5-10 years
Loans and borrowings	526,806	563,941	53,236	81,292	149,169	280,244
Trade and other payables	1,726,535	1,726,535	98,266	1,585,502	42,767	-
Liability regarding income tax	15,467	15,467	-	15,467	-	-
	2,268,808	2,305,943	151,502	1,682,261	191,936	280,244

3) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group'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 optimizing the return.

Currency risk

Currency risk is the risk that the present value of future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to currency risk arising from various currency exposures (loans attracted, foreign sales and acquisitions) primarily with respect to the US Dollars and the Euro.

The Group's exposure to currency risk is presented below:

31 December 2022

	AMD ths.	
	US Dollar	Euro
Financial assets		
Trade and other receivables	10,139	8,771
Cash and bank balances	109	-
	10,248	8,771
Financial liabilities		
Loan and borrowings	344,697	-
Trade and other payables	113,572	-
	458,269	-
Net exposure	(448,021)	8,771

31 December 2021

	AMD ths.	
	US Dollar	Euro
Financial assets		
Trade and other receivables	143,257	4,519
Cash and bank balances	48,024	
	<u>191,281</u>	<u>4,519</u>
Financial liabilities		
Loan and borrowings	138,027	
Trade and other payables	169,740	5,015
	<u>307,767</u>	<u>5,015</u>
Net exposure	<u>(116,486)</u>	<u>(496)</u>

Sensitivity analysis

A 10% strengthening/weakening of the Armenian dram against the US Dollar and the Euro as of December 31 would have affected the values of financial instruments denominated in those currencies and the profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant, and the effect of the expected sales and purchases is not taken into account.

10% strengthening

	AMD ths.			
	US Dollar impact		Euro Impact	
	2022	2021	2022	2021
Profit/(loss)	44,802	11,649	(877)	50

10% weakening

	AMD ths.			
	US Dollar impact		Euro Impact	
	2022	2021	2022	2021
Profit/(loss)	(44,802)	(11,649)	877	(50)

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing shareholder return through the strive to improve the debt to equity ratio.

Management regularly assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of different classes of the Group's debts. The Group manages the capital structure and makes adjustments taking into account changes in economic conditions and the risk specificities of the relevant assets.

26. Fair value

Management believes that the fair values of the Group's financial assets and liabilities approximate their carrying amounts at the reporting date.

27. Contingencies**Business environment**

As an emerging market economic system, Armenia continues to undergo political and economic transformations related to the transition from centralized planning to a free market.

Armenia has not completed the process of forming a developed institutional system and infrastructure, which are usually present in more mature free market economies.

For companies operating in similar economies, the above causes inherent risk of continuous or sometimes drastic changes in external factors such as tax administration, capital flow control, foreign exchange operations, formalities, export/import tariffs, etc., and these factors may adversely affect the future financial condition and results of the Group. However, as the number of variables and assumptions involved in these uncertainties is large, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Group may be affected.

Management of the Group believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Group.

Insurance

Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia.

Taxation

The taxation system in Armenia is characterized by frequent changes in legislation and disputes arising from misinterpretation and incorrect application of the Tax Code.

These factors may create tax risks for the companies operating in Armenia which is typical of any other emerging market economy in the world. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official provisions and court decisions. However, the relevant authorities may have differing interpretations and the effects may be significant.

28. Related party transactions

The Group's related parties include its Participant and key management.

Below are presented the related party transactions and balances:

Transactions	2022	AMD ths. 2021
<i>Participant</i>		
Dividends payment	-	19,490
Borrowing	138,518	218,279
Borrowing repaid	162,924	67,833
<i>Key management</i>		
Salary and bonuses	8,500	4,955
Balances	2022	AMD ths. 2021
<i>Participant</i>		
Borrowing	201,919	280,244
<i>Key management</i>		
Unpaid leave	6,919	4,006