“Armenian National Interests Fund” CJSC

Consolidated Financial Statements
for 2022

Contents

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Independent Auditors' Report

To the Board of Directors of "Armenian National Interests Fund" CJSC

Opinion

We have audited the consolidated financial statements of "Armenian National Interests Fund" CJSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

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 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 consolidated financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Standards, 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.

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

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

- Identify and assess the risks of material misstatement of the 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, we are required to draw attention in our auditors' 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 auditors' 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 of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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.

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

Irina Gevorgyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia

KPMG Armenia LLC
18 July 2023

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Consolidated Statement of Financial Position as at 31 December 2022

AMD'000	Note	31 December 2022	31 December 2021
Assets			
Property, equipment and intangible assets	5	1,477,408	1,390,970
Investments in associates and joint ventures	6	4,850,158	-
Right-of-use assets	16	35,111	-
Non-current assets		**6,362,677**	**1,390,970**
Cash and cash equivalents	7	92,772	292,230
Deposits in banks	8	1,816,376	4,165,345
Inventory		857	682
Prepayments given		32,201	25,870
Current assets		**1,942,206**	**4,484,127**
Total assets		**8,304,883**	**5,875,097**
Liabilities and equity			
Share capital	18	5,561,145	5,561,145
Additional paid in capital	18	359,216	359,216
Retained earnings/(accumulated losses)		962,718	(797,402)
Total equity		**6,883,079**	**5,122,959**
Grants related to asset	9	295,008	208,530
Loans and borrowings	11	150,000	193,212
Deferred tax liabilities	15	372,113	-
Non-current liabilities		**817,121**	**401,742**
Trade and other payables	10	388,026	184,812
Loans and borrowings	11	180,068	165,584
Lease liability	16	36,589	-
Current liabilities		**604,683**	**350,396**
Total liabilities		**1,421,804**	**752,138**
Total liabilities and equity		**8,304,883**	**5,875,097**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2022

AMD'000	Note	2022	2021
Contribution income	12	1,459,361	1,306,667
Fund management fee		17,631	1,918
		1,476,992	**1,308,585**
Personnel expenses		(1,291,144)	(1,709,857)
Public relations and marketing expenses		(152,382)	(117,076)
Audit and consulting expenses		(97,128)	(127,824)
Business trip and representation expenses		(30,128)	(34,927)
Rental expenses		(23,358)	(21,869)
Office and utility expenses		(4,451)	(14,660)
Communication expenses		(596)	(2,366)
Depreciation and amortization expenses		(46,246)	(35,068)
Other expenses	14	(72,092)	(96,288)
Results from operating activities		**(240,533)**	**(851,350)**
Finance income	13	2,537,213	97,499
Finance costs	13	(162,639)	(21,603)
Net finance income		**2,374,574**	**75,896**
Profit/(loss) before tax		**2,134,041**	**(775,454)**
Income tax expense	15	(373,921)	(21,948)
Profit/(loss) and total comprehensive income/(loss) for the year		**1,760,120**	**(797,402)**

The consolidated financial statements were approved by management on 18 July 2023 and were signed on its behalf by:

David Papazian
Director

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YEREVAN CLOSED JOINT-STOCK COMPANY "ARMENIAN NATIONAL INTERESTS FUND" REPUBLIC OF ARMENIA
02697868

Srbuhi Melkonyan
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

Consolidated Statement of Changes in Equity for 2022

AMD'000	Share capital	Additional paid in capital	Retained earnings/ (accumulated losses)	Total
Balance as at 1 January 2021	5,341	-	-	5,341
Total comprehensive loss				
Loss for the year	-	-	(797,402)	(797,402)
Total comprehensive loss for the year	**-**	**-**	**(797,402)**	**(797,402)**
Transactions with owners of the Group				
Non-cash contribution from shareholder	822,084	359,216	-	1,181,300
Issue of ordinary shares	4,733,720	-	-	4,733,720
Total transactions with owners of the Group	**5,555,804**	**359,216**	**-**	**5,915,020**
Balance as at 31 December 2021	**5,561,145**	**359,216**	**(797,402)**	**5,122,959**
Balance as at 1 January 2022	5,561,145	359,216	(797,402)	5,122,959
Total comprehensive income				
Profit for the year	-	-	1,760,120	1,760,120
Total comprehensive income for the year	**-**	**-**	**1,760,120**	**1,760,120**
Balance as at 31 December 2022	**5,561,145**	**359,216**	**962,718**	**6,883,079**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

Consolidated Statement of Cash Flows for 2022

AMD’000	2022	2021
Cash flows from operating activities		
Grants and donations received	1,800,000	1,687,449
Other receipts	12,271	1,765
Grants returned	-	(4,197)
Cash paid to suppliers	(312,770)	(224,168)
Cash paid to employees	(968,328)	(1,250,853)
Payments for taxes other than on income	(365,421)	(711,410)
Cash flows from/(used in) operating activities before income taxes paid	**165,752**	**(501,414)**
Income tax paid	-	(20,281)
Net cash flow from/(used in) operating activities	**165,752**	**(521,695)**
Cash flows from investing activities		
Investments in associates and joint ventures	(2,367,019)	-
Acquisition of property, equipment and intangible assets	(116,566)	(127,705)
Placement of bank deposits	(2,743,457)	(4,174,795)
Proceeds from bank deposits	4,891,814	-
Interest received	42,329	57,445
Net cash flow used in investing activities	**(292,899)**	**(4,245,055)**
Cash flows from financing activities		
Loans and borrowings received	2,007,164	751,054
Repayment of loans and borrowings	(2,013,502)	(455,499)
Proceeds from issue of share capital	-	4,733,720
Payment of lease liabilities	(23,663)	(19,671)
Interest paid	(30,823)	(19,446)
Net cash flow (used in)/from financing activities	**(60,824)**	**4,990,158**
Net (decrease)/increase in cash and cash equivalents	**(187,971)**	**223,408**
Cash and cash equivalents at 1 January	292,230	70,169
Effect of exchange rate fluctuations on cash and cash equivalents	(11,487)	(1,347)
Cash and cash equivalents at 31 December (Note 7)	**92,772**	**292,230**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 37.

1 Reporting entity

(a) Armenian business environment

The Group's operations are primarily located in Armenia. Consequently, the Group 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 has led to a social unrest in Armenia. In spite of the existence of the cease fire arrangement, the military forces of Armenia and Azerbaijan have been engaged in border conflict, which has also increased the level of uncertainty in the business environment.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

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

(b) Organisation and operations

"Armenian National Interests Fund" CJSC (the "Company") and its subsidiaries "Entrepreneur + State Anti-Crisis Investments" Fund Manager and ARFI CJSC (the "Group") comprise Armenian closed joint stock and limited liability companies as defined in the Civil Code of the Republic of Armenia.

The Group was established according to the decree No. 000-N by the Government of the Republic of Armenia on 22 May 2019 in accordance with the legislation of the Republic of Armenia.

The Group's registered address is 37 Hanrapetutyan Street, Yerevan 0010, Republic of Armenia.

The main objective of the Group's activity is to promote the investment interests of the Republic of Armenia through the management of strategic investment programs, attracting investments in initiatives implemented in priority areas of the economy, as well as participation in business enterprises containing acceptable risks.

The sole shareholder of the Group is the Government of the Republic of Armenia, represented by the Office of the Prime Minister of the Republic of Armenia.

2 Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

3 Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group's functional currency and the currency in which these consolidated 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 consolidated 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 critical judgments in applying accounting policies and significant estimates that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

– recognition of resources transferred by the Government as grants and grant accounting – Note 24(d, e,);
– use of venture capital exemption from equity accounting of associates and joint ventures – Note 24(m);
– fair value estimation of investments in associates and joint ventures – Note 17.

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 Note 15 – recognition of deferred tax assets.

Measurement of fair values

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

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized 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) (Note 17(a)).

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

5 Property, equipment and intangible assets

AMD'000	Land	Computers and equipment	Motor vehicles	Fixtures and fittings	Intangible assets	Total
Cost						
Balance at 1 January 2021	-	13,664	4,448	6,595	72,213	96,920
Additions	1,181,300	5,076	-	8,234	119,683	1,314,294
Balance at 31 December 2021	**1,181,300**	**18,740**	**4,448**	**14,829**	**191,896**	**1,411,214**
Balance at 1 January 2022	1,181,300	18,740	4,448	14,829	191,896	1,411,214
Additions	-	1,034	-	12,324	98,275	111,633
Disposals	-	(24)	-	(49)	-	(73)
Balance at 31 December 2022	**1,181,300**	**19,750**	**4,448**	**27,104**	**290,171**	**1,522,774**
Depreciation and amortization						
Balance at 1 January 2021	-	1,987	770	658	74	3,489
Depreciation and amortization for the year	-	6,652	1,487	820	7,796	16,755
Balance at 31 December 2021	-	**8,639**	**2,257**	**1,478**	**7,870**	**20,244**
Balance at 1 January 2022	-	8,639	2,257	1,478	7,870	20,244
Depreciation and amortization for the year	-	8,024	1,232	1,007	14,892	25,155
Disposals	-	(24)	-	(9)	-	(33)
Balance at 31 December 2022	**-**	**16,639**	**3,489**	**2,476**	**22,762**	**45,366**
Carrying amounts						
At 1 January 2021	**-**	**11,677**	**3,678**	**5,937**	**72,139**	**93,431**
At 31 December 2021	**1,181,300**	**10,101**	**2,191**	**13,351**	**184,027**	**1,390,970**
At 31 December 2022	**1,181,300**	**3,111**	**959**	**24,628**	**267,409**	**1,477,408**

* In 2021 land with a fair value of AMD 1,181,300 thousand was contributed by the sole shareholder.

6 Investments in associates and joint ventures

AMD'000	**2022**	**2021**
Fly Arna CJSC	4,850,000	-
Masdar Armenia CJSC	150	-
ImportAM Group CJSC	8	-
	4,850,158	**-**

Subsequent to 31 December 2021, in accordance with Shareholder decision the Group made investment in 49% equity shares of Armenian Airlines CJSC (Fly Arna, an entity founded on December 2021), with total investment amounting AMD 2,366,862 thousand. The country of incorporation and principal place of business is Republic of Armenia.

Fly Arna is a joint venture in which the Group has joint control and a 49% ownership interest. It is one of the Group's strategic investments and operates in the airlines sector. Fly Arna is not publicly listed.

Fly Arna is structured as a separate vehicle and the Group has a residual interest in the net assets of Fly Arna. Accordingly, the Group has classified its interest in Fly Arna as a joint venture. In accordance with the agreement under which Fly Arna is established, the Group and the other investor in the joint venture have agreed to make additional contributions in proportion to their interests to make up any losses, if required, up to a maximum amount of AMD 4,830,330 thousand. This commitment has not been recognised in these consolidated financial statements.

The following table summarises the financial information of Fly Arna as included in its own draft financial statements.

AMD million	**2022**
Non-current assets	6,941
Current assets (including cash and cash equivalents – AMD 3,427 million)	12,008
Non-current liabilities (including non-current financial liabilities excluding trade and other payables and provisions – AMD 4,808 million)	(4,808)
Current liabilities (including current financial liabilities excluding trade and other payables and provisions – AMD 2,525 million)	(11,242)
Net assets (100%)	**2,899**

As a venture capital organization, the Group applies the exemption from equity accounting of investments in associates and joint ventures and has elected to measure its investment in Fly Arna at fair value through profit or loss.

As at 31 December 2022 the fair value of investments in associates and joint ventures comprised AMD 4,850,158 thousand and fair value gain of AMD 2,483,139 thousand was recognised in finance income (Note 13). The fair value of investments is categorized into Level 3 of the fair value hierarchy, because of significant unobservable inputs to the valuation technique used (Note 17(a)).

7 Cash and cash equivalents

AMD'000	2022	2021
Bank balances		
– Rated from Aa1 to Baa3	72	8,830
– Rated from Ba1 to Ba3	76,785	274,257
– Rated from B1 to B3	3,408	9,143
– Unrated*	12,507	-
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**92,772**	**292,230**

* For not rated instruments the Group estimates that the rating of these counterparty banks approximates B1 to B3 rating under Moody's rating system. According to the Group's assessment, there are no restrictions of the ability to withdraw funds from these balances.

The Group uses credit ratings per Moody's rating agency in disclosing credit quality.

Cash and cash equivalents are fully in Stage 1 and measured at amortized cost as at 31 December 2022 and 2021.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 17.

8 Deposits in banks

AMD'000	2022	2021
Term deposits		
– Rated Baa1	212,528	-
– Rated B1	1,603,848	4,174,845
Credit loss allowance	-	(9,500)
	1,816,376	**4,165,345**

The term deposits were invested in local and foreign banks with rating Baa1 to B1 (Moody's assigned).

'000 AMD	Currency	Nominal interest rate	Year of maturity	2022 Face value	2022 Carrying amount	2021 Face value	2021 Carrying amount
Bank deposit	USD	1.50%	2023	1,220,067	1,220,067	-	-
Bank deposit	USD	2.00%	2023	383,731	383,731	-	-
Bank deposit	USD	3.50%	2023	212,528	212,528	-	-
Bank deposit	AMD	4.00%	2022	-	-	773,808	773,808
Bank deposit	AMD	5.50%	2022	-	-	1,369,995	1,369,995
Bank deposit	AMD	6.50%	2022	-	-	219,031	219,031
Bank deposit	AMD	7.50%	2022	-	-	441,980	441,980
Bank deposit	AMD	9.25%	2022	-	-	1,369,981	1,369,981
Bank deposit	AMD	8.70%	2022	-	-	50	50
				1,816,376	**1,816,376**	**4,174,845**	**4,174,845**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 17.

9 Grants received from the Government

(a) Grants related to income

AMD'000	2022	2021
Opening balance	-	(166,353)
Grant received during the year	1,845,840	1,792,772
Recognized in contribution income	(1,459,361)	(1,306,667)
VAT related to grant	(300,000)	(263,497)
Transferred to grants related to assets (net of depreciation)	(86,479)	(120,339)
Write off of grant receivables	-	64,573
Other movement	-	(489)
Closing balance	-	**-**

The Group was established by the Ministry of Economy with the mandate to promote export growth and investments in Armenia by providing co-financing in large-scale projects at their initial stage of development. Grants are provided in the scope of promoting foreign direct investments in Armenia to cover expenses incurred in carrying out activities specified in grant contracts.

Grants related to assets represents grants used for acquisition of non-current assets. Grants related to assets are recognised in profit or loss on a systematic basis over the useful life of the asset.

(b) Grants related to assets

AMD'000	2022	2021
Opening balance	208,530	88,190
Grant received during the year	111,633	130,418
Transferred to contribution income	(25,155)	(10,078)
Closing balance	**295,008**	**208,530**

10 Trade and other payables

AMD'000	2022	2021
Payable to the state budget	305,057	59,033
Payables to employees	75,978	118,953
Other	6,991	6,825
Total payables	**388,026**	**184,812**

The Group's exposure to currency and liquidity risks related to payables are disclosed in Note 17.

11 Loans and borrowings

As at 31 December 2022 and 2021 the Group has the following credit lines with the following outstanding balances.

(a) Terms and debt repayment schedule

				2022		2021	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank credit line	AMD	12.00%	2023	179,524	179,524	-	-
Secured bank credit line	AMD	12.50%	2025	150,544	150,544	93,555	93,555
Secured bank credit line	EUR	5.00%	2023	-	-	122,459	122,459
Secured bank credit line	USD	9.25%	2023	-	-	70,409	70,409
Secured bank credit line	USD	9.00%	2023	-	-	72,373	72,373
				330,068	**330,068**	**358,796**	**358,796**

As at 31 December 2022 and 2021 the Group's credit lines are secured by the turnover of current accounts in respective banks.

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

'000 AMD	Note	2022	2021
Balance at 1 January		**358,796**	**101,409**
Changes from financing cash flows			
Proceeds from loans and borrowings		2,007,164	751,054
Repayment of loans and borrowings		(2,013,502)	(455,499)
Interest paid		(30,822)	(19,446)
Total changes from financing cash flows		**(37,160)**	**276,109**
The effect of changes in foreign exchange rates		**(23,945)**	**(39,646)**
Other changes			
Liability-related			
Interest expense	13	32,377	20,924
Total liability-related other changes		**32,377**	**20,924**
Balance at 31 December		**330,068**	**358,796**

12 Contribution income

AMD'000	2022	2021
From grants received from the Ministry of Economy	-	81,787
From grants received from the Staff of Prime Minister office	1,459,361	1,224,880
	1,459,361	**1,306,667**

From the total grant received AMD 45,840 thousand (2021: AMD 109,410 thousand) represents direct compensation of expenses by the grantor.

13 Net finance costs

'000 AMD	**2022**	**2021**
Change in fair value of Investments in associates and joint ventures	2,483,139	-
Interest income under the effective interest method on term deposits	54,074	58,981
Net foreign exchange income	-	38,518
Finance income	**2,537,213**	**97,499**
Financial liabilities measured at amortised cost – interest expense on:		
Loans and borrowings	(32,377)	(20,924)
Lease liability	(4,089)	(679)
Net foreign exchange loss	(126,173)	-
Finance costs	**(162,639)**	**(21,603)**
Net finance income recognised in profit or loss	**2,374,574**	**75,896**

14 Other expenses

AMD'000	**2022**	**2021**
Insurance and bank charges	9,222	10,223
Taxes, other than on income	7,145	6,175
Write off of grant receivables	-	64,573
Impairment loss on term deposits	-	9,500
Other	55,725	5,817
	72,092	**96,288**

15 Income taxes

(a) Amounts recognised in profit or loss

The Group’s applicable tax rate is the corporate income tax of 18% (2021: 18%).

’000 AMD	**2022**	**2021**
Current tax expense		
Under provision for prior years	(1,808)	-
Deferred tax expense		
Origination and reversal of temporary differences	(372,113)	(21,948)
Total tax expense	**(373,921)**	**(21,948)**

Reconciliation of effective tax rate:

	2022 ’000 AMD	**%**	**2021 ’000 AMD**	**%**
Profit before income tax	2,134,041		(775,454)	
Tax using the Group’s domestic tax rate	(384,127)	(18%)	139,155	(18%)
Change in unrecognised deductible temporary differences	43,396	2%	(143,591)	19%
Under provided in prior years	(1,808)	0%		
Write off of previously recognised deferred tax asset	-	0%	(21,948)	3%
Non-deductible expenses	(31,382)	(1%)	4,436	(1%)
	(373,921)	**(17%)**	**(21,948)**	**3%**

(b) Movement in deferred tax balances

’000 AMD	**1 January 2022**	**Recognised in profit or loss**	**31 December 2022**
Investments in associates and joint ventures	-	(448,765)	(448,765)
Grants received		23,557	23,557
Other liabilities	-	53,094	53,094
	-	**(372,113)**	**(372,113)**

’000 AMD	**1 January 2021**	**Recognised in profit or loss**	**31 December 2021**
Other liabilities	12,659	(12,659)	-
Grants received	9,289	(9,289)	-
	21,948	**(21,948)**	-

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

’000 AMD	**2022**	**2021**
Tax losses	678,573	582,454
Deductible temporary differences	-	337,208
	678,573	**919,662**

The tax losses expire in 2026 and 2027. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

16 Leases

The Group leases office areas of the head office and Moscow representation.

(i) Right-of-use assets

’000 AMD	**2022**	**2021**
Balance at 1 January	-	18,992
Additions to right-of-use assets	56,163	-
Depreciation charge for the period	(21,052)	(18,992)
Balance at 31 December	**35,111**	**-**

(ii) Lease liability

’000 AMD	**2022**	**2021**
Balance at 1 January	-	18,992
Additions to lease liabilities	56,163	-
Interest expense	4,089	679
Lease payments	(23,663)	(19,671)
Balance at 31 December	**36,589**	**-**

17 Fair values and risk management

(a) Fair values of financial instruments

As at 31 December 2022 the estimated fair value of all the financial instruments approximate their carrying amounts.

As at 31 December 2022 Investment made in Fly Arna CJSC with carrying amount of AMD 2,366,861 thousand had a fair value of AMD 4,850,000 thousand.

The table below analyses financial instruments measured at fair value at 31 December 2022, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the consolidated statement of financial position:

AMD’000	Level 1	Level 2	Level 3	Total
Investments in associates and joint ventures	-	-	4,850,000	4,850,000

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include the income approach, which relies on the underlying financial theory that the value of an asset is equal to the value of the future income that the rational owner can expect to obtain from the asset.

Discounted cash flow (DCF) method of income approach used for valuation. DCF valuation is based on the valuators assessment of two fundamentals:

– the expected future cash flows to be generated by the asset being valued (whether that is an entire business, an individual asset, a project, shares, etc.).
– and the appropriate discount rate that allows for risk and uncertainty (the probability that the future cash flows will not turn out exactly as expected) and the time value of money.

DCF method values business interest using the concepts of time value of money. The method of discounted cash flow is based on discounting free cash flows by appropriate discount rate. In order to determine the value, cash flows and cost of capital are projected based on the specific terms and conditions to generate cash from the use of assets of a company and specific ability to obtain funding capital.

A reconciliation of movements in fair value of investments in associates and joint ventures at FVTPL for the year ended 31 December 2022 is as follows:

AMD’000	2022
Fair value as at 1 January	-
Investment made	2,366,861
Changes in fair value measurement	2,483,139
Fair value as at 31 December	**4,850,000**

The table below sets out information about significant unobservable inputs used in the measuring of financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2022:

Type of instrument	Fair values AMD’000	Valuation technique	Significant unobservable input	Unobservable inputs used
Investment in associates	4,850,000	Discounted cash flow from operating activities	Risk-adjusted discount rate	USD: 18.8%
			Revenue growth rate	256% growth in first projected year, 28%-72% growth in the 2nd to 4th projected years, 2.3% growth thereafter
			EBITDA margin	Negative in first projected year, breakeven in the 2nd projected year, gradually growing from the 3rd projected year and stabilizing at 17% in the last projected year

The main assumptions used by management to estimate the fair values of investments at FVTPL as at 31 December 2022 are:

- Valuation was based on FCFE (Free Cash Flows to Equity) approach.
- The cash flow projections included Fly Arna’s budget for 2023, specific estimates for further seven years and a terminal growth rate thereafter.
- Discount rates of 18.8% (USD) is used for discounting future cash flows expected from the instrument. The discount rates were estimated based on industry average cost of equity.
- The terminal growth rate of 2.1% is used for perpetual cash flows growth beyond the projection period.

If discount rates differ by plus/minus one percentage point, fair values of these instruments would be lower/higher by AMD 340,000 thousand/AMD 360,000 thousand.

If revenue growth rate is lower/higher by one percentage points during the 2nd to the 4th projected years, fair values of these instruments would be lower/higher by AMD 2,278,000 thousand/ AMD 2,199,000 thousand.

If EBITDA margin differs by minus/plus one percentage point in the terminal period, fair values of these instruments would be lower/higher by AMD 519,000 thousand/AMD 510,000 thousand.

(b) Financial risk management

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

- credit risk (see Note 17(c));
- liquidity risk (see Note 17(d));
- market risk (see Note 17(e)).

Management has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 Group's activities.

The Group, 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.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty of a financial instrument fails to meet its contractual obligations. Financial assets, which are potentially subject to concentrations of credit risk, consist principally of bank balances and deposits. Although collection of bank balances could be influenced by economic factors, management believes that no counterparty will fail to meet its obligations and that the Group is, accordingly, not significantly exposed to credit risk. Bank balances are maintained with reputable Armenian banks, and the Group does not expect any counterparty to fail to meet its obligations.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL which also represents the maximum exposure to credit risk from financial assets at the reporting date is as follows:

AMD'000			**External benchmarks used**	
	2022	**2021**	**PD**	**LGD**
ASSETS				
Bank balances	92,772	292,230	Moody's default study	Moody's default study
Deposits in banks	1,816,376	4,165,345	Moody's default study	Moody's default study
Total maximum exposure	**1,927,706**	**4,457,575**		

Cash and cash equivalents and deposits in banks

The Group holds cash and cash equivalents of AMD 92,772 thousand (2021: AMD 292,230 thousand) and term deposits of AMD 1,816,376 thousand at 31 December 2022 (2021: AMD 4,165,345 thousand) which represents its maximum credit exposure on these assets.

The bank balances and deposits are fully in Stage 1 and are held with reputable Armenian banks and the Group does not expect them to fail to meet their obligations. No bank balances and deposits are credit impaired or past due.

Per Group's assessment no impairment loss is recognised on bank accounts primarily due to their short nature.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group's reputation.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted.

31 December 2022		**Contractual cash flows**					
AMD'000	**Carrying amount**	**Total**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivative financial liabilities							
Trade and other payables	6,991	6,991	6,991	-	-	-	-
Lease liability	36,589	39,438	5,258	26,292	7,888	-	-
Loans and borrowings received*	330,068	330,068	3,068	177,000	-	150,000	-
	373,648	**376,497**	**15,317**	**203,292**	**7,888**	**150,000**	**-**

As at 31 December 2022 the Group has unused credit lines amounting AMD 469,932 thousand (2021: USD 206,876 and EUR 269,000) from Armenian banks.

31 December 2021		**Contractual cash flows**					
AMD'000	**Carrying amount**	**Total**	**Less than 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivative financial liabilities							
Trade and other payables	7,273	7,273	7,273	-	-	-	-
Loans and borrowings received	358,796	358,796	1,513	93,555	263,727	-	-
	365,621	**365,621**	**8,338**	**93,555**	**263,727**	**-**	-

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

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, 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

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which deposits, grants and other receivables and borrowings are denominated and the functional currency of the Group. The currency in which these transactions are primarily denominated is USD and EUR.

The Group’s exposure to foreign currency risk was as follows:

AMD’000	USD-denominated 2022	EUR-denominated 2022	USD-denominated 2021	EUR-denominated 2021
Bank balances	729	4,178	5,889	944
Loans and borrowings received	-	-	(142,782)	(122,459)
	729	**4,178**	**(136,893)**	**(121,515)**

The following significant exchange rates have been applied during the year:

	Average rate		Reporting date spot rate	
	2022	**2021**	**2022**	**2021**
USD	434.86	503.20	393.57	480.14

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 and ignores any impact of forecast sales and purchases.

’000 AMD	Strengthening Profit or loss	Weakening Profit or loss
31 December 2022		
AMD 10% movement against USD	(73)	73
AMD 10% movement against EUR	(418)	418
31 December 2021		
AMD 10% movement against USD	13,689	(13,689)
AMD 10% movement against EUR	12,152	(12,152)

Interest rate risk

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was as follows:

’000 AMD	Carrying amount	
	2022	**2021**
Fixed rate instruments		
Financial assets	1,816,376	4,165,345
Financial liabilities	330,068	358,796

Fair value sensitivity analysis for fixed rate instruments

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

18 Capital and reserves

(a) Share capital

As at 31 December 2022 the issued and fully paid share capital comprises 5,561,145 ordinary shares (31 December 2021: 5,561,145 shares) with a nominal value of AMD 1,000 (31 December 2021: AMD 1,000).

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

During the year 2021 the shareholder contributed to the share capital property and equipment with a nominal value of AMD 822,085 thousand which had a fair value of AMD 1,181,300 thousand.

(b) Dividends

In accordance with Armenian legislation, the Group’s distributable reserves are limited to the balance of retained earnings as recorded in the Group’s statutory consolidated financial statements prepared in accordance with International Financial Reporting Standards. No dividends were declared or paid in 2022 and 2021.

(c) Additional paid in capital

Additional paid in capital balance as at 31 December 2022 and 2021 relates to fair value difference at initial recognition of equity contribution performed by the sole shareholder.

19 Capital management

Given the nature of the Group’s operations, the Group does not have a formal capital management policy. The Group is not subject to externally imposed capital requirements.

20 Subsidiaries

The Group has two subsidiaries as of 31 December 2022.

Subsidiary	Country of incorporation	2022 Ownership/voting	2021 Ownership/voting
“Entrepreneur + State Anti-Crisis Investments” Fund Manager	Republic of Armenia	100%	100%
ARFI CJSC	Republic of Armenia	100%	-

21 Contingencies

Taxation contingencies

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

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

22 Related party transactions

(a) Management remuneration

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

AMD’000	2022	2021
Salaries and bonuses	**189,066**	**258,171**

(b) Transactions with the founder

AMD'000	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2022	2021	2022	2021
Grants received from Staff of Prime Minister	1,845,840	1,792,772	-	-

The ultimate shareholder of the Group is Government of the Republic of Armenia, represented by the Office of the Prime Minister of the Republic of Armenia during the year ended 31 December 2022 (31 December 2021: Office of the Prime Minister of the Republic of Armenia).

23 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except certain investments in associates and joint ventures, which are elected to be measured at fair value through profit or loss.

24 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and applied consistently to all group entities.

(a) 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. 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.

(b) 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.

If 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 recognized net within other income/expense in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) 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 residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is generally recognized in profit or loss on a straight-line basis over the estimated useful lives of each component 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 and equipment for the current and comparative periods are as follows:

– computers and equipment	1-10 years
– vehicles	5-10 years
– fixtures and fittings	3-8 years
– leasehold improvement	1-10 years
– intangible assets	10 years

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

(c) Inventories

Inventories are measured at the lower of cost and net realizable 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. In the case of manufactured inventories and 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 the estimated costs of completion and selling expenses.

(d) Grants and contribution income

Transfers of resources from the Government, the sole shareholder of the Group, are accounted as grants considering the attached conditions, donors' reporting and recognition requirements, the compensation calculation principles, requirement to return the unspent resources and other relevant factors.

Grants related to income and grants related to assets are recognised initially at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants related to assets are recognised in profit or loss on a systematic basis over the useful life of the asset. Grants related to income that compensate the Group for expenses incurred are recognised in profit or loss as contribution income on a systematic basis in the same periods in which the expenses are recognized.

(e) Grant receivables

Grant receivable is recognized, if it is reasonable certain that the entity complied with the conditions and the grants will be received.

(f) Share capital

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

Increase of share capital

Share capital increase is affected through the issuance of new shares. When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate component of equity as a fair value adjustment reserve for non-cash owner contributions.

(g) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the temporary differences on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

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

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(h) Leases

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.

As a lessee

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

The Group recognizes 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 Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group 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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

Lease payments included in the measurement of the lease liability comprise fixed payments.

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

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

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

(i) Interest income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Other income and expense items are recognized in profit or loss when the corresponding service is provided.

(j) Short-term employee benefits

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

(k) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised 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.

(ii) Classification and subsequent measurement

Financial assets

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

Financial assets are not reclassified subsequent to their initial recognition unless the 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 amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; 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 amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

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

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

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the 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 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; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost 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.

Financial liabilities comprise of loans and borrowings and trade and other payables.

(iii) 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 derecognised and a new financial asset is recognised 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 deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

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

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

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

Financial liabilities

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

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

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBA key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

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

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

(iv) Derecognition

Financial assets

The Group 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 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 recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

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

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

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the 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 realise the asset and settle the liability simultaneously.

(l) 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 collectively assessed trade receivables are always measured at an amount equal to lifetime ECLs.

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

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

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

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

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

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

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

Measurement of ECLs

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

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

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost 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 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 360 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(m) Venture capital organisation

For determining whether an entity qualifies as a venture capital or similar organisation, industry practice provides the following criteria that should be met:

- the investor's primary business activity is investing for current income, capital appreciation or both
- the investor's activities are clearly and objectively distinct from any of its other activities; and
- the investees are separate autonomous businesses from the investor.

The primary objective of ANIF CJSC is investment for the purpose of receiving dividend income and capital appreciation. It has several investments and has further plans to acquire additional investments. ANIF CJSC does not have any operations other than investment activities. ANIF invests in separate autonomous businesses.

Management has concluded that ANIF CJSC qualifies as a venture capital organisation and could apply exemption from equity accounting for its investments. The management elected to measure the investment in Fly Arna at fair value through profit or loss.

25 New standards and interpretations not yet adopted

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

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

- IFRS 17 *Insurance Contracts* and amendments to IFRS 17 *Insurance Contracts*.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1).
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).