Consolidated Financial Statements and Independent Auditor's Report

MTS Armenia CJSC

31 December 2022

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Independent auditor's report

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To the shareholders of MTS Armenia CJSC

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. 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 IFRSs, 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

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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, 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 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.

Armen Hovhannisyan
Chief Executive Officer

Narine Achemyan, FCCA
Engagement Partner

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31 May 2023

Consolidated statement of financial position

In thousand drams

	Note	As of 31 December 2022	As of 31 December 2021
Assets			
Non-current assets			
Property and equipment	4	26,561,229	27,542,981
Intangible assets	5	11,871,620	11,955,876
Right-of-use assets	6	4,323,121	4,746,720
Deferred income tax assets	7	2,289,342	3,465,113
Trade and other receivables	8	899,956	530,214
		45,945,268	48,240,904
Current assets			
Inventories	9	739,811	1,378,456
Unsecured borrowings	10	15,712,450	18,573,475
Trade and other receivables	8	3,516,303	3,609,302
Short-term loans to employees		276,095	256,532
Bank deposits		-	9,661,874
Cash and cash equivalents	11	10,228,068	4,311,474
		30,472,727	37,791,113
Total assets		76,417,995	86,032,017
Equity and liabilities			
Capital and reserves	12		
Share capital		550,000	550,000
Reserve capital		82,500	82,500
Accumulated profit		60,489,932	70,488,725
		61,122,432	71,121,225
Non-current liabilities			
Lease obligations	13	3,949,578	4,347,627
Contract liabilities	14	53,540	64,555
		4,003,118	4,412,182
Current liabilities			
Lease obligations	13	1,625,381	1,527,770
Contract liabilities	14	1,950,781	1,474,271
Trade and other payables	15	6,207,434	5,201,114
Income tax payable		1,508,849	2,295,455
		11,292,445	10,498,610
Total equity and liabilities		76,417,995	86,032,017

The consolidated financial statements were approved on 31 May 2023 by:

Armen Avetisyan
General Director

Gayane Kananyan
Chief Accountant

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 36.

Consolidated statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2022	Year ended 31 December 2021
Contract revenue			
Mobile services	16	48,326,423	46,830,285
Fixed line services		1,218,669	1,171,419
Revenue from sale of goods		827,599	733,321
Other revenue		507,364	203,225
Other income			
Other operating income		493,915	265,192
		51,373,970	49,203,442
Depreciation and amortization		(13,149,271)	(15,782,777)
Interconnection and roaming costs	17	(3,744,220)	(3,658,228)
Payroll and employee benefits		(8,868,550)	(9,035,729)
Other network operating costs	18	(6,415,733)	(6,061,081)
Cost of sold goods		(714,140)	(687,253)
Other operating expenses	19	(4,578,548)	(5,060,570)
		(37,470,462)	(40,285,638)
Results from operating activities		13,903,508	8,917,804
Finance income	20	709,043	1,040,662
Finance cost		(745,261)	(844,599)
Net loss from exchange rate differences	21	(5,117,486)	(2,691,081)
Profit before income tax		8,749,804	6,422,786
Income tax expense	22	(3,748,597)	(3,329,446)
Profit for the year		5,001,207	3,093,340
Other comprehensive income		-	-
Total comprehensive income for the year		5,001,207	3,093,340

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 36.

Consolidated statement of changes in equity

In thousand drams	Share capital	Reserve capital	Accumulated profit	Total
as of 1 January 2021	550,000	82,500	77,395,385	78,027,885
Profit for the year	-	-	3,093,340	3,093,340
Total comprehensive income for the year	-	-	3,093,340	3,093,340
Dividends	-	-	(10,000,000)	(10,000,000)
Transactions with owners	-	-	(10,000,000)	(10,000,000)
as of 31 December 2021	550,000	82,500	70,488,725	71,121,225
Profit for the year	-	-	5,001,207	5,001,207
Total comprehensive income for the year	-	-	5,001,207	5,001,207
Dividends	-	-	(15,000,000)	(15,000,000)
Transactions with owners	-	-	(15,000,000)	(15,000,000)
as of 31 December 2022	550,000	82,500	60,489,932	61,122,432

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 36.

Consolidated statement of cash flows

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Cash flows from operating activities		
Profit for the year	5,001,207	3,093,340
Adjustments for:		
Depreciation, amortization and impairment	13,144,591	15,830,591
Loss on disposal of property, equipment and intangible assets	34,350	1,030,607
Income tax expense	3,748,597	3,329,446
Finance income	(709,043)	(1,040,662)
Finance cost	745,261	844,599
Impairment/(reversal of impairment) of borrowings provided	(172,780)	20,197
Foreign exchange loss, net	5,117,486	2,691,081
Operating profit before working capital changes	26,909,669	25,799,199
Change in trade and other receivables	(243,811)	479,091
Change in inventories	638,645	(10,287)
Change in borrowings provided to employees	(19,563)	(3,883)
Change in contract liabilities	465,495	40,190
Change in trade and other payables	1,546,086	(1,200,651)
Cash generated from operations	29,296,521	25,103,659
Income tax paid	(3,359,432)	(2,931,970)
Net cash from operating activities	25,937,089	22,171,689
Cash flows from investing activities		
Acquisition of property, equipment and intangible assets	(10,836,703)	(12,749,368)
Proceeds from disposal of property and equipment	63,513	58,290
Repayment of borrowings provided	-	185,206
Interest income received	126,579	328,030
Deposits made	(964,590)	(12,395,065)
Deposits repaid	10,204,526	12,259,223
Net cash used in investing activities	(1,406,675)	(12,313,684)
Cash flows from financing activities		
Lease obligation paid	(2,325,226)	(2,327,082)
Dividends paid	(15,000,000)	(10,000,000)
Net cash used in financing activities	(17,325,226)	(12,327,082)
Net increase/(decrease) in cash and bank balances	7,205,188	(2,469,077)
Foreign exchange effect on cash	(1,288,594)	(538,854)
Cash and cash equivalents at the beginning of the year	4,311,474	7,319,405
Cash and cash equivalents at the end of the year	10,228,068	4,311,474

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 36.

Notes to the consolidated financial statements

1 Nature of operations and general information

MTS Armenia CJSC (the Company, together with the Subsidiary - the Group) was established under the laws of the Republic of Armenia in November 2004. The Company is operating under the license #765 “On rendering of telephone services” issued by the Ministry of Transport and Communication (currently the Ministry of High-Technological Industry) of the Republic of Armenia on 4 November 2004 for 15 years, which was prolonged till 4 November 2034, based on the decision No 403A of the Public Services Regulatory Commission of the RA dated 1 November 2019.

The Company is controlled by Aramayo Investments Limited, which owns 100% of the Company’s shares. The ultimate parent company of the Group is Sistema Public Joint Stock Financial Corporation (Sistema PJSFC), which is incorporated in Russia and located at 13 Mokhovaya Street, Moscow 125 009. The shares of Sistema PJSFC are traded on the Moscow Exchange (MOEX) under the AFKS ticker.

These financial statements are consolidated by Mobile TeleSystems Public Joint Stock Company (MTS PJSC). Since 2003, ordinary shares of MTS PJSC have been traded on the Moscow Exchange (MOEX) under the MTSS ticker.

The Group is primarily involved in providing a wide range of telecommunication services including voice and data transmission, internet access, various value added services through wireless and fixed lines, as well as sale of handsets and accessories. The Group has a wide service center network, including 72 service centers in Yerevan and the regions. The number of active subscribers as of 31 December 2022 is 2,266,979 (31 December 2021: 2,231,838).

These consolidated financial statements include financial statements of MobiDram Closed Joint Stock Company (the Subsidiary). The Company's ownership in MobiDram CJSC is 100%. MobiDram CJSC was established under the laws of the Republic of Armenia in August 2011. The Subsidiary is operating under the license #15 “On making money transfers” issued by the Central Bank of the Republic of Armenia. The principal activity of the Subsidiary is provision of payment and settlement services.

The registered address of the Company and the Subsidiary is 4/1 Argishti Street, Yerevan, Republic of Armenia.

The number of employees of the Group as of 31 December 2022 was 1,104 employees (31 December 2021: 1,090 employees).

Business environment

The changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The stability and development of the Armenian economy largely depends on these changes. The government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability.

The situation in the Republic of Armenia has intensified as a result of the war unleashed by the Republic of Azerbaijan. Despite the ceasefire agreement, the consequences of the war on Armenia's economy, both in the short and long term, are still uncertain.

The conflict broke out on 24 February in Ukraine has evolved rapidly, having a significant impact around the world. The United States and the European countries have imposed severe sanctions against Russia and Belarus, including Russian banks, entities and individuals. The Western countries are discussing widening existing sanctions. Russian Federation is a significant trading partner of the Republic of Armenia, hence sanctions imposed on Russia as of the date of these financial statements, as well as the escalation of those sanctions had a radical effect on the economy and financial markets of the Republic of Armenia. The immediate global implications were higher inflation, lower growth, and some disruption to financial markets as deeper sanctions take hold.

The conflict in Ukraine caused thousands of Russians and Ukrainians to relocate to the Republic of Armenia. This included not only individuals but also businesses that were established and operated in those countries. This resulted in increased inflows of foreign currency into the Armenian market, which led to a significant appreciation of the Armenian dram relative to the US dollar and Euro.

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Group operates on a going concern basis.

2.2 Basis of measurement

The consolidated financial statements have been prepared on an accruals basis and under the historical cost convention with the exception of certain financial instruments that are stated at present discounted value of future cash flows, as well as inventories that are stated at net realizable value.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Group's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Group.

These consolidated financial statements are presented in Armenian drams (unless otherwise stated), since management believes that this currency is more useful for the users of these consolidated financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of consolidated financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 22 to the consolidated financial statements.

2.5 Adoption of new and revised standards

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2022.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2022

New standards and amendments described below and applied for the first time in 2022 did not have a material impact on the annual consolidated financial statements of the Group:

Standard	Title of Standard or Interpretation
IFRS 3	*References to the conceptual framework (Amendments to IFRS 3)*
IAS 16	*Proceeds before intended use (Amendments to IAS 16)*
IAS 37	*Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)*
IFRS 1, IFRS 9, IAS 41, IFRS 16	*Annual improvements to IFRS Standards 2018-2021 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning on or after the effective date of the pronouncement.

Management does not anticipate a material impact on the Group's consolidated financial statements from these Standards and Amendments. They are presented below:

Standard	Title of Standard or Interpretation	Effective for reporting periods beginning on or after
IFRS 17	*Amendments to IFRS 17 Insurance Contracts including the Extension of the Temporary Exemption from Applying IRFS 9 (Amendments to IFRS 4)*	*1 January 2023*
IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*	*1 January 2023*
IFRS 17	*Initial application of IFRS 17 and IFRS 9 – Comparative information (Amendment to IFRS 17)*	*1 January 2023*
IAS 8	*Definition of Accounting Estimates (Amendments to IAS 8)*	*1 January 2023*
IAS 1	*Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)*	*1 January 2023*
IAS 1	*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*	*1 January 2024*
IFRS 16	*Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*	*1 January 2024*
IAS 1	*Non-current Liabilities with Covenants (Amendments to IAS 1)*	*1 January 2024*

2.6 Subsidiaries

The consolidated financial statements include the following subsidiaries:

Subsidiary	Ownership %	Country	Date of incorporation
MobiDram CJSC	100%	Republic of Armenia	2 August 2011

Investment in a Subsidiary does not include goodwill as the Company has acquired its share through establishment of the Subsidiary.

3 Significant accounting policies

3.1 Basis of consolidation

The Group's financial statements consolidate those of the Company and its subsidiary as of 31 December 2022. The Subsidiary has a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of the Subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

3.2 Foreign currencies

In preparing the consolidated financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 393.57 drams for 1 US dollar and 420.06 drams for 1 euro as of 31 December 2022 (31 December 2021: 480.14 drams for 1 US dollar and 542.61 drams for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates 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 and retranslation of monetary items, are included in profit or loss for the period.

3.3 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

Depreciation is charged to profit or loss or is added to the cost of other asset on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings and constructions	-	20 years
Telecommunication equipment	-	5 - 7 years
Telecom constructions	-	5 - 17 years
Vehicles	-	4 - 5 years
Computer equipment	-	3 - 7 years

Fixtures and fittings - 2 - 5 years.

3.4 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.

The cost of intangible assets acquired as part of telecommunication equipment is added to the cost of appropriate telecommunication equipment, and amortized during useful lives of the corresponding equipment.

Amortization is charged to profit or loss on a straight line basis over the estimated useful lives of the intangible assets, which are;

- the legally enforceable period of time, and in case of the absence of such timing arrangements, the estimated useful lives, but not in excess of 5 years for telecommunication software, rights and licenses and,
- the legally enforceable period of time and in case of the absence of such timing arrangements, the estimated useful lives, but not in excess of 10 years for other assets.

3.5 Right-of-use assets

The Group's lease contracts largely relate to leases of cellular sites (i.e. land, space in cell towers or rooftop surface areas), network infrastructure, and service centers as well as buildings used for administrative or technical purposes.

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements (including sub-lease and lease of intangible assets), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with a lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expenses over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate the non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangement.

Right-of-use assets are initially measured at cost, which is the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset less any lease incentives received.

Right-of-use assets are subsequently amortized as follows:

- if the contract provides for the transfer of ownership of the underlying asset to the lessee or if the expectation is that the call option will be exercised, the right-of-use asset is depreciated by the lessee until the end of the useful life of the underlying asset;
- if the contract does not provide for the transfer of ownership of the underlying asset to the lessee, it is depreciated on a straight-line basis over the expected lease term.

The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal or termination options. When assessing the lease term, the Group considers all facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, such as useful life of the asset located on the leased site, sites replacement statistics, sequence of technology change, profitability of service centers as well as costs to terminate or enter into lease contracts.

3.6 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.

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.

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 immediately.

3.7 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.8 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Group becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the Group's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses. A summary of the Group's financial assets by category is given in note 23.2.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group’s cash and cash equivalents, bank deposits, trade and most other receivables and borrowings provided fall into this category of financial instruments.

Impairment of financial assets

IFRS 9’s impairment requirements use more forward-looking information to recognize expected credit losses – the “expected credit loss (ECL) model”. Instruments within the scope of IFRS 9 requirements included loans and other debt-type financial assets measured at amortized cost, trade receivables, contract assets recognized and measured under IFRS 15.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month expected credit losses” are recognized for the first category while “lifetime expected credit losses” are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to note 24 (b) for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

The Group's financial liabilities include trade and other payables and lease obligations. A summary of the Group's financial liabilities by category is given in note 23.2.

Lease obligations

Lease obligations are recognized initially 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 incremental borrowing rate of the Group. The lease payments include fixed payments, variable payments that depend on index or rate, amounts expected to be paid under residual value guarantee, the exercise price under a purchase option the Group is reasonably certain to exercise as well as early termination fees unless the Group is reasonably certain not to terminate earlier. Variable payments that depend on external factors are expensed as incurred.

Subsequent to initial recognition, lease obligations are stated at amortized cost using effective interest method by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Lease liability 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, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of right-of-use asset had been reduced to zero.

Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.9 Equity

Equity instruments issued by the Group are recorded at the proceeds received.

Share capital represents the nominal value of shares that have been issued.

Accumulated profit include all current and prior period retained profits.

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

3.10 Provisions

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

3.11 Income tax

Current tax 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 is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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 offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.12 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves.

When employees render services to the Group during the accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Group shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Group has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the Group has no realistic alternative but to make the payments.

3.13 Revenue

Revenue arises mainly from provision of mobile and fixed telecommunication services (access charges, voice and video calls, messaging, interconnect fees, fixed and mobile broadband and connection fees), as well as selling of devices and accessories.

Revenue from contracts with customers

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Group.

To determine whether to recognize revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price

4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligations are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group recognizes revenues over time, except for revenue from sales of goods, which is recognized at a point in time.

Products and services may be sold separately or in bundle packages. The Group accounts for individual products and services separately if they are distinct, which means that a product or service, as well as the customer benefit, is separately identifiable from other items in the bundled package and a customer can benefit from it. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices.

The Group recognizes advances from customers for consideration received in respect of unsatisfied performance obligations and reports these amounts as contract liabilities in the consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognizes either a contract asset or a receivable in its consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Mobile services

Revenue is measured in terms of traffic minutes processed or transaction capacity provided and is recognized in the period in which the connection is provided.

Subscription fee

Subscriber revenue primarily consists of monthly fixed charges for usage of the mobile network, recognized as the service is provided. One-time non-refundable activation fees are recognized upon activation of the mobile lines in the same period as the related costs.

Value added services

These services include MMS, Video call, Ring back tone and etc. Revenue from value added services is recognized in the period in which the service is provided.

Roaming revenue

Roaming revenue is recognized in the period in which the services are provided and includes:

- traffic minutes processed and transaction capacity provided and received by own customers in foreign networks (outbound roaming) and
- total number of minutes made and transaction capacity used by visiting (foreign) subscribers when making and receiving calls within a country (inbound roaming).

The Group provides retrospective volume discounts under roaming agreements with international and local mobile operators. To estimate the variable consideration in relation to these discounts, the Group uses original data traffic adjusted on a monthly basis to reflect newly-available information. The resulting liability for the expected future discounts is recognized as a reduction of revenue.

Interconnection revenue

Revenues from network interconnection with other domestic and international telecommunication carriers are recognized monthly on the basis of the actual recorded traffic for the month.

Revenue from sale of goods

Revenue from sale of goods (mainly mobile handsets and other mobile devices) is recognized when the significant risks and rewards of ownership have been transferred to the customer.

Cost to obtain and fulfill a contract

The Group capitalizes certain incremental costs incurred in acquiring or fulfilling a contract with a customer if management expects these costs to be recoverable.

Costs of acquiring a contract include commissions paid to a third-party distributor as well as the associated remuneration of the Group’s commercial employees for obtaining a contract with a customer. These costs are amortized on a straight-line basis over the average subscriber life.

Costs to fulfill a contract mainly relate to costs of equipment transferred to the subscribers required for the provision of services. These costs are amortized on a straight-line basis for the shorter of equipment useful life or average subscriber life.

The Group uses a practical expedient from IFRS 15 which allows to expense contract costs as incurred when the expected contract duration is one year or less.

Other income

Interest income

Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Rental income

Rental income is recognized on a straight-line basis over the term of the relevant lease contract.

4 Property and equipment

In thousand drams	Lands, buildings, constructions and leasehold improvements	Network and base station equipment	Construction in progress and equipment for installation	Office equipment, vehicles and fixture and fittings	Total
Cost					
as of 1 January 2021	3,919,166	131,248,085	19,928,747	4,017,628	159,113,626
Additions	46,557	5,717,670	672,473	205,046	6,641,746
Disposals	-	(2,047,553)	(235,436)	(158,520)	(2,441,509)
as of 31 December 2021	3,965,723	134,918,202	20,365,784	4,064,154	163,313,863
Additions	89,810	4,130,735	790,738	175,251	5,186,534
Eliminated on disposals	(15,028)	(6,680,193)	(52,494)	(160,391)	(6,908,106)
as of 31 December 2022	4,040,505	132,368,744	21,104,028	4,079,014	161,592,291
Accumulated depreciation and impairment					
as of 1 January 2021	2,818,149	111,436,765	10,837,026	3,161,388	128,253,328
Depreciation	172,457	6,637,919	1,772,096	340,975	8,923,447
Eliminated on disposal	-	(1,390,844)	(23,183)	(132,093)	(1,546,120)
Impairment	-	140,227	-	-	140,227
as of 31 December 2021	2,990,606	116,824,067	12,585,939	3,370,270	135,770,882
Depreciation	98,252	4,437,547	1,084,418	268,193	5,888,410
Eliminated on disposal	(14,758)	(6,567,456)	(38,602)	(165,639)	(6,786,455)
Impairment	-	158,085	126	14	158,225
as of 31 December 2022	3,074,100	114,852,243	13,631,881	3,472,838	135,031,062
Carrying amount					
as of 31 December 2021	975,117	18,094,135	7,779,845	693,884	27,542,981
as of 31 December 2022	966,405	17,516,501	7,472,147	606,176	26,561,229

The cost of fully depreciated property and equipment is drams 83,817,688 thousand as of 31 December 2022 (31 December 2021: drams 89,581,413 thousand).

The carrying amount of temporarily idle property and equipment is drams 1,206,771 thousand as of 31 December 2022 (31 December 2021: drams 1,680,743 thousand).

5 Intangible assets

In thousand drams	Computer software	Rights and licenses	Total
Cost			
as of 1 January 2021	4,743,938	23,696,726	28,440,664
Additions	195,452	5,292,599	5,488,051
Disposals	(772,134)	(6,844,172)	(7,616,306)
as of 31 December 2021	4,167,256	22,145,153	26,312,409
Additions	472,994	4,772,120	5,245,114
Disposals	(623,951)	(1,550,751)	(2,174,702)
Internal movement	(21,557)	21,557	-
as of 31 December 2022	4,016,299	25,366,522	29,382,821
Accumulated amortization			
as of 1 January 2021	2,834,284	13,918,822	16,753,106
Amortization charge	605,625	4,420,600	5,026,225
Eliminated on disposal	(761,805)	(6,660,993)	(7,422,798)
as of 31 December 2021	2,678,104	11,678,429	14,356,533
Amortization charge	633,041	4,720,117	5,353,158
Eliminated on disposal	(623,845)	(1,574,645)	(2,198,490)
Internal movement	(143,459)	143,459	-
as of 31 December 2022	2,687,300	14,823,901	17,511,201
Carrying amount			
as of 31 December 2021	1,489,152	10,466,724	11,955,876
as of 31 December 2022	1,328,999	10,542,621	11,871,620

Additions to rights and licenses include network upgrade services acquired from Ericsson AB and Huawei Technologies Co Ltd at the amount of drams 2,944,467 thousand (2021: drams 2,280,380 thousand).

6 Right-of-use assets

In thousand drams	Fiber optic lines	Sites for placement of network equipment	Service centers	Administrative buildings and warehouses	Total
Cost					
as of 1 January 2021	1,278,596	6,696,851	1,821,881	202,669	9,999,997
Additions	104,108	913,094	288,235	12,249	1,317,686
Terminations and amendments	-	(450,391)	(6,411)	-	(456,802)
as of 31 December 2021	1,382,704	7,159,554	2,103,705	214,918	10,860,881
Additions	172,568	1,105,693	403,163	44,366	1,725,790
Terminations and amendments	-	(669,004)	(108,438)	-	(777,442)
as of 31 December 2022	1,555,272	7,596,243	2,398,430	259,284	11,809,229
Accumulated depreciation					
as of 1 January 2021	677,863	2,756,816	975,207	75,870	4,485,756
Depreciation	291,030	1,017,555	360,465	71,642	1,740,692
Eliminated on termination and amendments	-	(108,011)	(4,276)	-	(112,287)
as of 31 December 2021	968,893	3,666,360	1,331,396	147,512	6,114,161
Depreciation	245,719	1,051,634	363,250	84,195	1,744,798
Eliminated on termination and amendments	-	(300,194)	(72,657)	-	(372,851)
as of 31 December 2022	1,214,612	4,417,800	1,621,989	231,707	7,486,108
Carrying amount					
as of 31 December 2021	413,811	3,493,194	772,309	67,406	4,746,720
as of 31 December 2022	340,660	3,178,443	776,441	27,577	4,323,121

7 Deferred income tax assets

The movement of deferred income tax assets is disclosed below:

In thousand drams	2022	2021
Balance at the beginning of year	3,465,113	3,435,691
Credited/(charged) to profit or loss	(1,175,771)	29,422
Balance at the end of year	2,289,342	3,465,113

Deferred income taxes for the year ended 31 December 2022 can be summarized as follows:

In thousand drams	1 January 2022	Recognized in profit or loss	31 December 2022
Deferred income tax assets			
Property and equipment	1,868,240	(540,247)	1,327,993
Intangible assets	624,837	(505,940)	118,897
Lease obligations	1,025,965	(52,663)	973,302
Inventories	46,486	67,880	114,366
Trade and other payables	468,507	(67,802)	400,705
Unsecured borrowings	35,291	(35,291)	-
Trade and other receivables	250,197	(117,956)	132,241
Tax losses to carry forward	67,824	(38,112)	29,712
	4,387,347	(1,290,131)	3,097,216

Deferred income tax liabilities			
Right-of-use assets	854,410	(76,248)	778,162
	854,410	(76,248)	778,162
Valuation of deferred tax assets	(67,824)	38,112	(29,712)
Net position – deferred income tax assets	3,465,113	(1,175,771)	2,289,342

Deferred income taxes for the year ended 31 December 2021 can be summarized as follows:

In thousand drams	1 January 2021	Recognized in profit or loss	31 December 2021
Deferred income tax assets			
Property and equipment	1,865,208	3,032	1,868,240
Intangible assets	603,249	21,588	624,837
Lease obligations	1,123,652	(97,687)	1,025,965
Inventories	45,747	739	46,486
Trade and other payables	461,135	7,372	468,507
Unsecured borrowings	34,654	637	35,291
Trade and other receivables	294,609	(44,412)	250,197
Tax losses to carry forward	86,857	(19,033)	67,824
	4,515,111	(127,764)	4,387,347
Deferred income tax liabilities			
Right-of-use assets	992,563	(138,153)	854,410
	992,563	(138,153)	854,410
Valuation of deferred tax assets	(86,857)	19,033	(67,824)
Net position – deferred income tax assets	3,435,691	29,422	3,465,113

8 Trade and other receivables

In thousand drams	As of 31 December 2022	As of 31 December 2021
Financial assets		
Receivables from mobile services	2,311,707	1,970,423
Receivables from roaming services	1,136,688	1,021,960
Receivables from interconnection	384,703	450,565
Receivables from dealers	126,676	176,814
Receivables from sale of handsets	70,356	1,020,486
Other receivables	59,865	146,275
Allowances for expected credit losses	(720,190)	(1,389,983)
	3,369,805	3,396,540
Non-financial assets		
Advances for acquisitions of non-current assets	899,956	530,214
Advances and prepayments	129,417	196,944
Prepaid taxes	17,081	15,818
	1,046,454	742,976
	4,416,259	4,139,516

The net carrying value of trade receivables is considered a reasonable approximation of fair value. The average credit period on sale of services is one month (2021: one month). No interest is charged on trade receivables.

All of the Group’s trade and other receivables have been reviewed for indication of impairment. No individually significant receivables have been found to be impaired.

The movement in the loss allowance of trade receivables is as follows:

In thousand drams	2022	2021
Loss allowance as of 1 January	1,389,983	1,599,007
Decrease in the allowance during the year	(66,678)	(185,615)
Written off during the year	(603,115)	(23,409)
Loss allowance as of 31 December	720,190	1,389,983

Note 24 (b) includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses.

Refer to note 24 (a) for the currencies in which trade and other receivables are denominated.

9 Inventories

In thousand drams	As of 31 December 2022	As of 31 December 2021
Spare parts	281,880	963,826
Advertising and other materials	27,722	72,779
Handsets and accessories	186,224	71,528
SIM cards and prepaid phone cards	105,796	43,775
Other	138,189	226,548
	739,811	1,378,456

10 Unsecured borrowings

Unsecured borrowings include on-demand loan provided to Mobile Telesystems PJSC (parent company) at drams 15,703,443 thousand (31 December 2021: drams 18,485,390 thousand). The loan is provided in US dollars and bears 4% annual interest rate.

Note 25 (b) includes disclosures relating to credit risk exposures.

11 Cash and cash equivalents

In thousand drams	As of 31 December 2022	As of 31 December 2021
Bank accounts	9,776,823	3,783,283
Cash in hand	30,659	20,738
Cash in transit	420,586	507,453
	10,228,068	4,311,474

Refer to note 25 (a) for the currencies in which the cash and cash equivalents are denominated.

12 Capital and reserves

12.1 Share capital

Number of shares unless otherwise stated	Ordinary shares 2022	Ordinary shares 2021
Authorized shares		
Number of ordinary shares of drams 1,000 each	550,000	550,000

The Group has one class of ordinary shares, which carry no right to fixed income.

12.2 Dividends

In 2022 dividends amounting to drams 15,000,000 thousand have been paid to holders of ordinary shares. In 2021 the dividend paid was drams 10,000,000 thousand.

12.3 Reserve capital

The reserve capital is used to transfer profits from accumulated profit. These transfers are regulated by the Company's charter, which states that the Company has the obligation to create a reserve at the maximum of 15% of the issued share capital. The purpose of the reserve capital is to cover future losses.

13 Lease obligations

In thousand drams	As of 31 December 2022	As of 31 December 2021
Minimum lease payments, including:		
Less than 1 year	2,225,120	2,174,290
From 1 to 5 years	4,231,444	4,625,839
Over 5 years	2,011,519	2,471,127
	8,468,083	9,271,256
Less amount representing interest	2,893,124	3,395,859
Present value of minimum lease payments, including:		
Less than 1 year	1,625,381	1,527,770
From 1 to 5 years	3,087,748	3,304,352
Over 5 years	861,830	1,043,275
	5,574,959	5,875,397
Including:		
Current	1,625,381	1,527,770
Non-current	3,949,578	4,347,627

The weighted average borrowing rate applied by the Group to discount its lease liabilities was 14%.

Interest expense accrued on lease obligations for the year ended 31 December 2022 was drams 745,261 thousand (2021: drams 844,599 thousand) and was included in "finance costs".

14 Contract liabilities

In thousand drams	As of 31 December 2022	As of 31 December 2021
Prepaid mobile revenues	1,664,846	1,199,293
Roaming deposits	53,540	64,555
Other prepayments received	285,935	274,978
	2,004,321	1,538,826

Contract liabilities represent amounts paid by customers to the Group before receiving the goods and services promised in the contract.

Revenue recognized that was included in the contract liability balance at the beginning of the year was drams 1,474,271 thousand (year ended 31 December 2021: drams 1,420,521 thousand).

The Group expects to recognize the entire amount of contract liabilities as of 31 December 2022 as revenue during 2023.

15 Trade and other payables

In thousand drams	As of 31 December 2022	As of 31 December 2021
Trade payables	2,084,804	2,130,877
Payables to employees	2,068,885	2,458,105
Payables to the State budget	1,545,706	289,719
Payables for acquisition of telecom equipment and software	16,659	51,972
Other payables and accruals	491,380	270,441
	6,207,434	5,201,114

The Group has financial risk management policies to ensure that all payables are paid within the credit timeframe.

Refer to note 24 (a) for more information about the Group's exposure to foreign currency risk.

16 Mobile services

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Revenue from GPRS	25,582,382	23,889,722
Voice air-time revenue	11,083,066	11,429,937
Interconnection services	5,008,358	5,633,993
Revenue from SMS	3,267,062	2,829,840
Roaming services	1,131,788	955,298
Subscription revenue	959,158	1,203,526
Content services	934,512	581,350
Other value-added services	129,333	139,255
Other revenue	230,764	167,364
	48,326,423	46,830,285

17 Interconnection and roaming costs

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Interconnection costs	3,104,802	3,227,453
Roaming costs	639,418	430,775
	3,744,220	3,658,228

18 Other network operating costs

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Radio frequencies charges	2,881,236	2,888,005
Maintenance of billing system and network equipment	1,119,975	1,131,619
Electric power	1,243,484	1,081,710
GPRS costs	273,517	316,085
Short-term leases	240,100	212,002
Content services	565,010	348,553
Other	92,411	83,107
	6,415,733	6,061,081

19 Other operating expenses

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Marketing and advertisement	607,787	551,896
Donations and sponsorship	365,200	624,600
Dealers' commissions	527,801	511,528
Office and utility expenses	543,351	508,335
Travel and training costs	170,187	159,618
Trademark royalty fee	194,095	185,809
Security	183,728	199,479
Taxes and state duties	478,198	835,967
Impairment of inventories	377,110	4,105
Other expenses	1,131,091	1,479,233
	4,578,548	5,060,570

20 Finance income

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Interest income on unsecured borrowings	609,807	712,632
Interest income on bank deposits	45,699	196,866
Interest income on cash and cash equivalents	53,537	131,164
	709,043	1,040,662

21 Net loss from exchange differences

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Financial assets at amortized cost	5,406,488	2,905,631
Financial liabilities at amortized cost	(289,002)	(214,550)
	5,117,486	2,691,081

21.1 Income tax expense

In thousand drams	Year ended 31 December 2022	Year ended 31 December 2021
Current tax	2,572,826	3,103,587
Adjustments recognized in the current year in relation to the current tax of prior years	-	255,281
Deferred tax	1,175,771	(29,422)
	3,748,597	3,329,446

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2022	Effective tax rate (%)	Year ended 31 December 2021	Effective tax rate (%)
Profit before taxation (under IFRSs)	8,749,804		6,422,786	
Tax calculated at a tax rate of 18% (2021: 18%)	1,574,965	18.0	1,156,101	18.0
(Non-taxable)/non-deductible items, net	2,009,290	23.0	1,373,564	21.4
Effect of transfer pricing	164,342	1.9	544,500	8.5
Adjustments recognized in the current year in relation to the current tax of prior years	-	-	255,281	4.0
Income tax expense	3,748,597	42.8	3,329,446	51.8

22 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

22.1 Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of telecommunication equipment and related intangible assets

Management of the Group estimated useful lives of telecommunication systems and related intangible assets at 5-7 years. This estimate is based on the Group's current intentions to continue exploitation of the existing systems.

Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for new technologies. Critical estimates in the evaluations of useful lives for intangible assets include, but are not limited to, the remaining license period and the expected developments in technology and markets.

However, rapid changes in the technological, market and economic environments in which the Group operates may require changes in the management plans to continue with the existing systems. If this happens, the recoverable amounts of the telecommunication systems may drastically decrease.

Right-of-use assets and lease liabilities

The value of right-of-use assets and lease liabilities is based on management estimates of lease terms as well as an incremental borrowing rate used to discount lease payments. The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising renewal options. When assessing the lease term, management considers all facts and circumstances that create the economic incentive for the Group to excise the option to extend the lease, such as the useful life of the asset located on the leased site, statistics on sites replacement, sequence of technology change, profitability of service centers as well as costs to terminate or enter into lease contracts.

Changes in these factors could affect the estimated lease term and the reported value of right-of-use assets and lease liabilities.

Provision for expected credit losses of financial assets

The Group uses judgement to estimate allowance for expected credit losses (ECL) for financial assets at amortized costs. ECL are measured in a way that reflects the unbiased and probability-weighted amount, the time-value of money and reasonable and supportable information at the reporting date pertaining to past events, current conditions and forecasts of future economic conditions. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, service type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

ECL are measured as probability-weighted present value of all cash shortfalls over the expected life of each financial asset. ECL are mainly calculated using a statistical model based on three major risk parameters: probability of default, loss given default and exposure of default.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. This information includes macroeconomic factors (unemployment rate, inflation rate) and forecasts of future economic conditions. The impact of forecast economic conditions in the determination of ECL was not significant. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 26 (b).

23 Financial instruments

23.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.8.

23.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

Financial assets

In thousand drams	As of 31 December 2022	As of 31 December 2021
Amortized cost		
Unsecured borrowings	15,712,450	18,573,475
Trade and other receivables	3,369,805	3,396,540
Short-term loans to employees	276,095	256,532
Bank deposits	-	9,661,874
Cash and cash equivalents	10,228,068	4,311,474
	29,586,418	36,199,895

Financial liabilities

In thousand drams	As of 31 December 2022	As of 31 December 2021
Amortized cost		
Lease obligations	5,574,959	5,875,397
Trade and other payables	4,661,728	4,911,395
	10,236,687	10,786,792

24 Financial risk management

The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The most significant financial risks to which the Group is exposed are described below.

Financial risk factors

a) Market risk

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, which result from both its operating and investing activities.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Most of the Group's transactions are carried out in Armenian drams. Exposures to currency exchange rates arise from the Group's sales and purchases, which are primarily denominated in US dollars and Euro. The Group has also borrowings provided, bank deposits and lease obligations denominated in US dollars.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Item As of 31 December 2022	US dollar	Euro	Ruble	Yuan
Financial assets				
Unsecured borrowings	15,712,450	-	-	-
Trade and other receivables	42,765	1,386,585	14,266	-
Cash and cash equivalents	5,582,907	2,324,424	101,708	56,510
	21,338,122	3,711,009	115,974	56,510
Financial liabilities				
Lease obligations	116,706	-	-	-
Trade and other payables	405,184	1,019,234	970	-
	521,890	1,019,234	970	-
Net position	20,816,232	2,691,775	115,004	56,510

Item As of 31 December 2021	US dollar	Euro	Ruble
Financial assets			
Unsecured borrowings	18,573,475	-	-
Trade and other receivables	452,686	1,552,360	19,303
Bank deposits	9,608,879	-	-
Cash and cash equivalents	1,735,330	568,954	18,123
	30,370,370	2,121,314	37,426
Financial liabilities			
Lease obligations	99,513	-	-
Trade and other payables	638,151	663,359	1,114
	737,664	663,359	1,114
Net position	29,632,706	1,457,955	36,312

The following table details the Group's sensitivity to a 10% (2021: 15%) increase and decrease in dram against relevant currency. 10% (2021: 15%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2021: 15%) change in foreign currency rates.

If Armenian dram had strengthened against relevant currency by 10% (2021: 15%) this would have had the following impact:

In thousand drams	2022	2021
US dollar	(2,081,623)	(4,444,906)
Euro	(269,178)	(218,693)
Ruble	(11,500)	(5,447)

Exposure to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

b) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk from financial assets, including cash and cash equivalents held at banks, term deposits, borrowings provided and trade and other receivables.

The credit risk is managed on a group basis based on the Group's credit risk management policies and procedures.

The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of 31 December 2022	As of 31 December 2021
Unsecured borrowings	15,712,450	18,573,475
Loans to employees	276,095	256,532
Trade and other receivables	3,369,805	3,396,540
Bank deposits	-	9,661,874
Bank balances	10,197,409	4,290,736
	29,555,759	36,179,157

The credit risk in respect of bank balances is managed via diversification of banks and are only held with major reputable financial institutions.

The credit risk for loans to employees is considered negligible, since the counterparties are employees of the Group.

Unsecured borrowings

As described in note 10, the Group provided loan to MTS PJSC (parent company) at the amount of drams 15,703,443 thousand (18,485,390 thousand drams).

The Company management performed analysis of expected credit losses in respect of the borrowing and concluded that there is no risk in relation to these amounts based on the following:

- audited financial statements of MTS PJSC for the year ended 31 December 2022 show sufficient available liquid assets and cash inflows from operating activities which significantly exceeds required cash resources to repay the loan;
- MTS PJSC had no difficulties with liquidity as of the date of authorization of these consolidated financial statements as well.

Based on the above analysis the Group management concluded that there is no credit risk in relation to those amounts, hence no allowances for expected credit losses was recorded.

Trade receivables

The concentration of credit risk with respect to trade receivables is limited given that the Group's customer base is large and unrelated.

The Group applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due for groupings of various customer segments with similar loss patterns.

The expected loss rates are based on the payment profile for sales over the past 2 years before 31 December 2022 as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. The Group has identified gross domestic product (GDP) and unemployment rates of the countries in which the customers are domiciled to be the most relevant factors and accordingly adjusts historical loss rates for expected changes in these factors. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e., derecognized) when there is no reasonable expectation of recovery. Failure to make payments and failure to engage with the Group on alternative payment arrangement amongst others are considered indicators of no reasonable expectation of recovery.

On the above basis the expected credit loss for trade receivables, which includes receivables from mobile services, roaming and other receivables as of 31 December 2022 was determined as follows:

31 December 2022	Expected credit loss	Gross carrying amount	Lifetime expected credit loss
0 - 30	1%	2,806,131	28,199
31- 60	20%	83,758	16,659
61 - 90	37%	33,847	12,635
91 - 120	55%	22,362	12,256
121 - 150	68%	21,047	14,341
151 - 180	77%	17,870	13,835
181 - 210	82%	15,698	12,939
211 - more	100%	507,547	507,547
		3,508,260	618,411

31 December 2021	Expected credit loss	Gross carrying amount	Lifetime expected credit loss
0 - 30	1%	2,512,601	28,008
31- 60	25%	64,578	16,374
61 - 90	47%	33,408	15,671
91 - 120	70%	24,882	17,322
121 - 150	86%	22,074	19,051
151 - 180	94%	19,679	18,456
181 - 210	97%	15,652	15,206
211 - more	100%	445,784	445,784
		3,138,658	575,872

Receivables from dealers are entirely secured by bank guarantees and credit losses for those amounts are negligible. Hence no provision has been made for expected credit losses.

c) *Liquidity risk*

Liquidity risk is the risk that the Group will be unable to meet its obligations.

The Group's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2022	Trade and other payables	Lease obligations	Total
Weighted average effective interest rate	Interest free	14%	
Less than 6 months	4,661,728	1,254,330	5,916,058
6 months to 1 year	-	970,790	970,790
1-5 years	-	4,231,444	4,231,444
More than 5 years	-	2,011,519	2,011,519
	4,661,728	8,468,083	13,129,811

2021	Trade and other payables	Lease obligations	Total
Weighted average effective interest rate	Interest free	14%	
Less than 6 months	4,911,395	1,203,500	6,114,895
6 months to 1 year	-	970,790	970,790
1-5 years	-	4,625,839	4,625,839
More than 5 years	-	2,471,127	2,471,127
	4,911,395	9,271,256	14,182,651

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources, term deposits and trade receivables. The Group's cash resources, term deposits and trade receivables significantly exceed the current cash outflow requirements.

25 Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

In thousand drams	Dividends	Lease liabilities	Total
as of 1 January 2021	-	6,399,938	6,399,938
Cash-flows			
Repayments	(10,000,000)	(2,327,082)	(12,327,082)
Non-cash			
Dividend accrued	10,000,000	-	10,000,000
Interest accrual	-	844,599	844,599
Additions	-	1,322,771	1,322,771
Terminations and amendments	-	(349,600)	(349,600)
Foreign exchange loss	-	(15,229)	(15,229)
as of 31 December 2021	-	5,875,397	5,875,397
Cash-flows			
Repayments	(15,000,000)	(2,325,226)	(17,325,226)

Non-cash			
Dividend accrued	15,000,000	-	15,000,000
Interest accrual	-	745,261	745,261
Additions	-	1,321,199	1,321,199
Foreign exchange loss	-	(41,672)	(41,672)
as of 31 December 2022	-	5,574,959	5,574,959

26 Fair value measurement

The Group provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26.1 Fair value measurement of financial instruments

Financial instruments measured at amortized cost for which the fair value is disclosed

Fair value of financial instruments approximates their carrying amounts.

Fair value has been determined by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise, most significant input is the discount rate. Estimated fair values of the Group's financial assets and financial liabilities are classified within Level 3 of the fair value hierarchy.

27 Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern and provide adequate return to stakeholders.

The capital structure of the Group consists of equity attributable to equity holders of the parent comprising issued capital, reserves and accumulated profits.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholder, return capital to shareholder or issue new shares.

The Group's gearing ratio is nil since the capital consists of equity only (2021: nil).

28 Commitments

28.1 Capital commitments

The Group has entered into contracts to purchase property and equipment and intangible assets for drams 9,084,914 thousand (2021: drams 7,293,849 thousand).

29 Contingencies

29.1 Taxes

The taxation system in Armenia is characterized by frequently changing legislation, which sometimes needs interpretations. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

29.2 Environmental matters

Management is of the opinion that the Group has met the Government’s requirements concerning environmental matters and, therefore, believes that the Group does not have any current material environmental liabilities. However, environmental legislation in Armenia is in process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

29.3 Independent compliance monitor

In March 2019, the Parent company, Mobile TeleSystems PJSC (MTS PJSC), signed an agreement with the United States Securities and Exchange Commission and the United States Department of Justice regarding a previously disclosed investigation of a former subsidiary of MTS PJSC in Uzbekistan. Pursuant to the terms of the agreement, an independent compliance monitor was appointed in September 2019 to, among other things, review, test and improve anti-corruption code, policies and procedures of MTS group companies.

The independent compliance monitoring identified certain transactions of the Group, which were reported to the United States Department of Justice and the United States Securities and Exchange Commission. The United States Department of Justice and the United States Securities and Exchange Commission have requested additional information about these transactions and MTS PJSC has initiated its own review. It is not currently practicable to determine the timing of the completion and outcome of the review. However, according to management there would be no significant effect on the Group's financial statement as a result of the above.

30 Related parties

The Group's related parties include its parent, entities under common control and key management and others as described below.

30.1 Control relationships

The Group is controlled by Aramayo Investments Limited, which owns 100% of the Company’s shares. The ultimate parent of the Group is Sistema Joint Stock Financial Corporation, which is incorporated in Russia and located at 13 Mokhovaya Street, Moscow 125 009.

30.2 Transactions with related parties

During the reporting year the Group had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand drams

Transactions	Year ended 31 December 2022	Year ended 31 December 2021
Parent		
Provision of services and sale of goods	1,805,509	3,516,317
Acquisition of goods and services	1,720,853	2,279,852
Accrual of interest income	602,726	702,419
Entities under common control		
Provision of services and sale of goods	1,003	-
Acquisition of goods and services	307,343	194,916
Key management		
Payroll and employee benefits	1,481,351	2,079,772

In thousand drams

Outstanding balances	As of 31 December 2022	As of 31 December 2021
Parent		
Trade and other receivables	1,619,477	1,337,894
Trade and other payables	978,665	551,807
Unsecured borrowings	15,703,443	18,485,390
Entities under common control		
Trade and other receivables	87	-
Trade and other payables	550	1,650
Key management		
Trade and other payables	584,639	1,242,783