Consolidated Financial Statements and Independent Auditor's Report

Viva Armenia CJSC

31 December 2023

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Independent auditor's report

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ՀՀ, ք. Երևան 0015
Գրիգոր Լուսավորչի 9
Հ. + 374 10 50 09 64/61

Grant Thornton CJSC
Yerevan Plaza Business Center
9 Grigor Lusavorich Street,
Yerevan 0015, Republic of Armenia
T + 374 10 50 09 64/61

To the shareholders of Viva Armenia CJSC

Opinion

We have audited the consolidated financial statements of Viva Armenia CJSC (former MTS Armenia CJSC) (the "Company") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2023, 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 material 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 2023, 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

4 June 2024

Consolidated statement of financial position

In thousand drams	Note	As of 31 December 2023	As of 31 December 2022
Assets			
Non-current assets			
Property and equipment	4	24,596,023	26,561,229
Intangible assets	5	11,566,102	11,871,620
Right-of-use assets	6	4,263,784	4,323,121
Deferred income tax assets	7	1,603,686	2,289,342
Advances for acquisitions of non-current assets		2,305,083	899,956
		44,334,678	45,945,268
Current assets			
Inventories	8	506,663	739,811
Trade and other receivables	9	2,811,050	3,516,303
Loans provided	10	20,895,006	15,712,450
Short-term loans to employees		302,373	276,095
Cash and cash equivalents	11	9,529,024	10,228,068
		34,044,116	30,472,727
Total assets		78,378,794	76,417,995
Equity and liabilities			
Capital and reserves	12		
Share capital		550,000	550,000
Reserve capital		82,500	82,500
Accumulated profit		40,313,846	60,489,932
		40,946,346	61,122,432
Non-current liabilities			
Lease obligations	13	4,015,518	3,949,578
Contract liabilities	14	44,500	53,540
		4,060,018	4,003,118
Current liabilities			
Dividends payable	12	21,669,500	-
Lease obligations	13	1,471,190	1,625,381
Contract liabilities	14	1,445,315	1,230,011
Trade and other payables	15	7,341,091	6,928,204
Income tax payable		1,445,334	1,508,849
		33,372,430	11,292,445
Total equity and liabilities		78,378,794	76,417,995

The consolidated financial statements were approved on 4 June 2024 by:

Armen Avetisyan	Lusine Zakaryan
General Director	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 37.

Consolidated statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2023	Year ended 31 December 2022
Contract revenue			
Mobile services	16	50,423,507	48,327,532
Fixed line services		1,200,162	1,218,669
Commission revenue		1,225,547	507,364
Revenue from sale of goods		531,265	827,599
Other income			
Other operating income		316,085	492,806
		53,696,566	51,373,970
Depreciation and amortization		(13,958,928)	(13,149,271)
Payroll and employee benefits		(9,064,062)	(8,868,550)
Interconnection and roaming costs	17	(4,460,227)	(3,744,220)
Other network operating costs	18	(6,687,580)	(6,415,733)
Cost of sold goods		(451,295)	(714,140)
Other operating expenses	19	(4,629,109)	(4,578,548)
		(39,251,201)	(37,470,462)
Results from operating activities		14,445,365	13,903,508
Finance income	20	901,028	709,043
Finance cost		(647,127)	(745,261)
Net gain/(loss) from exchange rate differences	21	129,608	(5,117,486)
Profit before income tax		14,828,874	8,749,804
Income tax expense	22	(3,194,960)	(3,748,597)
Profit for the year		11,633,914	5,001,207
Other comprehensive income		-	-
Total comprehensive income for the year		11,633,914	5,001,207

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

In thousand drams	Share capital	Reserve capital	Accumulated profit	Total
as of 1 January 2022	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
Profit for the year	-	-	11,633,914	11,633,914
Total comprehensive income for the year	-	-	11,633,914	11,633,914
Dividends	-	-	(31,810,000)	(31,810,000)
Transactions with owners	-	-	(31,810,000)	(31,810,000)
as of 31 December 2023	550,000	82,500	40,313,846	40,946,346

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

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Cash flows from operating activities		
Profit for the year	11,633,914	5,001,207
Adjustments for:		
Depreciation, amortization and impairment	13,961,700	13,144,591
Loss/(gain) on disposal of non-current assets	(22,564)	34,350
Income tax expense	3,194,960	3,748,597
Finance income	(901,028)	(709,043)
Finance cost	647,127	745,261
Impairment reversal on loans provided	-	(172,780)
Foreign exchange (gain)/loss, net	(129,608)	5,117,486
Operating profit before working capital changes	28,384,501	26,909,669
Change in trade and other receivables	735,155	(243,811)
Change in inventories	233,148	638,645
Change in loans provided to employees	(26,278)	(19,563)
Change in contract liabilities	206,264	(15,108)
Change in trade and other payables	(1,344,310)	2,026,689
Cash generated from operations	28,188,480	29,296,521
Income tax paid	(2,572,819)	(3,359,432)
Net cash from operating activities	25,615,661	25,937,089
Cash flows from investing activities		
Acquisition of property, equipment and intangible assets	(11,249,095)	(10,836,703)
Proceeds from disposal of property and equipment	57,349	63,513
Repayment of loans provided	9,107	-
Provision of loans to related parties	(11,970,929)	-
Deposits made	-	(964,590)
Deposits repaid	-	10,204,526
Net cash used in investing activities	(23,153,568)	(1,533,254)
Cash flows from financing activities		
Lease obligation paid	(2,439,662)	(2,325,226)
Dividends paid	-	(15,000,000)
Net cash used in financing activities	(2,439,662)	(17,325,226)
Net increase/(decrease) in cash and bank balances	22,431	7,078,609
Interest income received on bank balances	186,591	126,579
Foreign exchange effect on cash	(908,066)	(1,288,594)
Cash and cash equivalents at the beginning of the year	10,228,068	4,311,474
Cash and cash equivalents at the end of the year	9,529,024	10,228,068

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.

Notes to the consolidated financial statements

1 Nature of operations and general information

Viva Armenia Closed Joint Stock Company (former MTS Armenia CJSC) (the Company, together with the Subsidiary - the Group) was established under the laws of the Republic of Armenia in November 2004. On 25 March 2024, as per the amendment registered by the RA MOJ Agency for State Register of Legal Entities, the name of MTS Armenia CJSC has been changed to Viva Armenia CJSC.

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.

During the reporting period the Company was controlled by Aramayo Investments Limited, which owned 100% of the Company’s shares. The ultimate parent company of the Group was 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. In January 2024 the Company announces a change of its shareholder and is no longer belongs to the Russian MTS Group. Currently the Company is controlled by Fedilco Group Limited, a company duly incorporated in Cyprus and registered in the commercial register of the city of Nicosia under number HE 433524. The transaction was duly registered in the Central Depository of Armenia on 23 January 2024.

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 73 service centers in Yerevan and the regions. The number of active subscribers as of 31 December 2023 is 2,316,656 (31 December 2022: 2,266,979).

These consolidated financial statements include financial statements of MobiDram Closed Joint Stock Company (the Subsidiary). The Company's ownership in the Subsidiary is 100%. The Subsidiary 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 the 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 2023 was 1,147 employees (31 December 2022: 1,104 employees).

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 changes in political and economic environment and the development of the legal, tax and legislative systems in Armenia have continuing nature. The legal, tax and regulatory frameworks are subject to varying interpretations which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. 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 in 2020. The consequences of the 44-day Artsakh War continue to have a significant impact on the country's overall economy. In 2023 the political situation in Armenia continues to remain relatively unstable. In September 2023 approximately 120,000 ethnic Armenians living in Artsakh were forcibly deported to Armenia, causing further economic and political upheavals. As a result of the unstable political situation, the permanent closure of international roads, and short-term ceasefire violations, it is difficult to clearly predict the economic impact on the Group’s operations.

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia and Belarus, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. The Russian Federation is a significant trading partner of Armenia, hence sanctions imposed on Russia, as well as the escalation of those sanctions had a radical effect on the economy and financial markets of the Republic of Armenia.

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 has had positive impact on the Armenian economy with the resulting double-digit growth. The Group’s management is monitoring the economic situation in the current environment. As the war is still waging, it is impossible to reliably assess the final impact this may have on the Group’s business as there is uncertainty over the magnitude of the impact on the economy in general.

These consolidated financial statements do not reflect the potential future impact of the above on the Group's operations.

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.

2.3 Basis of consolidation

The Group’s financial statements consolidate those of the Company and its subsidiary as of 31 December 2023. 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.

2.4 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.

2.5 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 23 to the consolidated financial statements.

2.6 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 2023.

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 2023

New standards and amendments described below were applied for the first time in:

Standard	Title of Standard or Interpretation
IFRS 17	*Amendments to IFRS 17 Insurance Contracts including the Extension of the Temporary Exemption from Applying IRFS 9* *(Amendments to IFRS 4)*
IFRS 17	*Initial application of IFRS 17 and IFRS 9 – Comparative information (Amendment to IFRS 17)*
IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*
IAS 12	*International Tax Reform – Pillar Two Model Rules* *(Amendments to IAS 12)*
IAS 8	*Definition of Accounting Estimates (Amendments to IAS 8)*
IAS 1	*Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)*

With the exception of the amendments to IAS 1 and IFRS Practice *Statement 2 - Disclosure of Accounting Policies* presented below, other standards and amendments did not have material impact on the consolidated financial statements of the Group.

Amendments to IAS 1 and IFRS Practice Statement 2- Disclosure of Accounting Policies

In IAS 1 and IFRS *Statement Practice 2* (Making Materiality Judgements), the amendments provide guidance and examples to help entities apply materiality judgments on accounting policy disclosures. The purpose of the amendments is to help entities present more useful accounting policy disclosures by replacing the requirement to disclose "significant" accounting policies with a requirement to requirement to disclose "material" accounting policies and by adding guidance on how entities should apply the concept of materiality when disclosing accounting policies.

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
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*
IAS 7 and IFRS 7	*Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*	*1 January 2024*
IAS 21	*Lack of Exchangeability (Amendments to IAS 21)*	*1 January 2025*

2.7 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 Summary of material accounting policies

As describe in note 2.6, the Group has reviewed its disclosure of accounting policies in accordance with *Amendments* to IAS 1 and IFRS *Practice Statement 2- Disclosure of Accounting Policies*. Disclosures of accounting policies have been more simplified and clarified, excluding accounting policies on immaterial matters, as well as general information, which only duplicates the requirements of IFRSs.

3.1 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 404.79 drams for 1 US dollar and 447.90 drams for 1 euro as of 31 December 2023 (31 December 2022: 393.57 drams for 1 US dollar and 420.06 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).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 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.

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 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.

3.3 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.

3.4 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.

3.5 Impairment of depreciable 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.

3.6 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.

3.7 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 24.2.

Subsequent measurement of financial assets

The Group’s financial assets include cash and cash equivalents, trade and other receivables and loans provided, which fall into amortized cost category of financial instruments.

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.

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 include loans, trade receivables, contract assets recognized and measured under IFRS 15 and cash and cash equivalents.

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 25 (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 24.2.

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 mostly include fixed payments and early termination fees unless the Group is reasonably certain not to terminate earlier.

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

Lease liability is remeasured when 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.

3.8 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.

3.9 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.

3.10 Income tax

Current tax

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

Deferred tax

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.

3.11 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.

3.12 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.

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 by the volume of voice and data traffic packages processed or the “pay as you go” transactions airtime provided. The revenue 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 ring back tone, partner content applications, 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:

- revenue accrued from own subscribers when using mobile services while in a foreign country/ network: this stream of revenues is composed of outbound roaming revenues from voice services, messaging services and data consumption while abroad (outbound roaming)

- revenue accrued from visiting (foreign) subscribers when using mobile services within a country/ network. This stream of revenues is composed of inbound roaming revenue from voice services, messaging services and data consumption while in the country/network (inbound roaming).

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.

Fixed services

Revenue from fixed services primarily consists of monthly fixed charges for usage of services and is recognized over time as the services are provided using time elapsed measure of progress. These services include internet, television and voice over IP.

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.

Commission revenue

Revenue arises from commissions paid by banks for the wire transfer services.

Wire transfer services mainly include:

- receiving and making payments through the direct beneficiary or other person;
- Implementation of cashier transactions for third parties;
- processing and clearing;

The process of providing services is measured based on accepted payments, cash withdrawal transactions and money transfers.

4 Property and equipment

In thousand drams	Lands, buildings, constructions and leasehold improvements	Network and base station equipment	Transportation facilities and constructions	Office equipment, vehicles and fixture and fittings	Total
Cost					
as of 1 January 2022	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
Additions	98,106	3,471,006	389,960	186,739	4,145,811
Eliminated on disposals	(16,097)	(3,407,770)	(23,602)	(139,403)	(3,586,872)
as of 31 December 2023	4,122,514	132,431,980	21,470,386	4,126,350	162,151,230
Accumulated depreciation and impairment					
as of 1 January 2022	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
Depreciation	74,923	4,421,101	1,046,118	240,270	5,782,412
Eliminated on disposal	(16,097)	(3,383,980)	(14,115)	(137,895)	(3,552,087)
Impairment	3,253	268,103	6,396	16,068	293,820
as of 31 December 2023	3,136,179	116,157,467	14,670,280	3,591,281	137,555,207
Carrying amount					
as of 31 December 2022	966,405	17,516,501	7,472,147	606,176	26,561,229
as of 31 December 2023	986,335	16,274,513	6,800,106	535,069	24,596,023

The cost of fully depreciated property and equipment is drams 85,102,635 thousand as of 31 December 2023 (31 December 2022: drams 83,817,688 thousand).

The carrying amount of temporarily idle property and equipment is drams 1,288,419 thousand as of 31 December 2023 (31 December 2022: drams 1,206,771 thousand).

5 Intangible assets

In thousand drams	Computer software	Rights and licenses	Total
Cost			
as of 1 January 2022	4,145,699	22,166,710	26,312,409
Additions	472,994	4,772,120	5,245,114
Disposals	(623,951)	(1,550,751)	(2,174,702)
as of 31 December 2022	3,994,742	25,388,079	29,382,821
Additions	467,843	5,461,113	5,928,956
Disposals	(215,525)	(4,325,509)	(4,541,034)
as of 31 December 2023	4,247,060	26,523,683	30,770,743
Accumulated amortization and impairment			
as of 1 January 2022	2,534,645	11,821,888	14,356,533
Amortization charge	633,041	4,720,117	5,353,158
Eliminated on disposal	(623,845)	(1,574,645)	(2,198,490)
as of 31 December 2022	2,543,841	14,967,360	17,511,201
Amortization charge	600,535	5,633,939	6,234,474
Eliminated on disposal	(215,525)	(4,325,509)	(4,541,034)
as of 31 December 2023	2,928,851	16,275,790	19,204,641
Carrying amount			
as of 31 December 2022	1,450,901	10,420,719	11,871,620
as of 31 December 2023	1,318,209	10,247,893	11,566,102

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 2022	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
Additions	93,371	1,315,842	335,215	448,746	2,193,174
Terminations and amendments	(883,012)	(1,138,465)	(491,221)	(471,049)	(2,983,747)
as of 31 December 2023	765,631	7,773,620	2,242,424	236,981	11,018,656
Accumulated depreciation					
as of 1 January 2022	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
Depreciation	145,018	1,078,622	370,476	56,878	1,650,994
Eliminated on termination and amendments	(740,184)	(891,469)	(479,112)	(271,465)	(2,382,230)
as of 31 December 2023	619,446	4,604,953	1,513,353	17,120	6,754,872
Carrying amount					
as of 31 December 2022	340,660	3,178,443	776,441	27,577	4,323,121
as of 31 December 2023	146,185	3,168,667	729,071	219,861	4,263,784

7 Deferred income tax assets

The movement of deferred income tax assets is disclosed below:

In thousand drams	2023	2022
Balance at the beginning of year	2,289,342	3,465,113
Charged to profit or loss	(685,656)	(1,175,771)
Balance at the end of year	1,603,686	2,289,342

Deferred income taxes for the year ended 31 December 2023 can be summarized as follows:

In thousand drams	1 January 2023	Recognized in profit or loss	31 December 2023
Deferred income tax assets			
Property and equipment	1,327,993	(381,786)	946,207
Intangible assets	118,897	(106,017)	12,880
Lease obligations	973,302	(20,246)	953,056
Inventories	114,366	6,503	120,869
Trade and other payables	400,705	(102,369)	298,336
Trade and other receivables	132,241	(92,422)	39,819
Tax losses to carry forward	29,712	(29,712)	-
	3,097,216	(726,049)	2,371,167

Deferred income tax liabilities			
Right-of-use assets	778,162	(10,681)	767,481
	778,162	(10,681)	767,481
Valuation of deferred tax assets	(29,712)	29,712	-
Net position – deferred income tax assets	2,289,342	(685,656)	1,603,686

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
Loans provided	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

8 Inventories

In thousand drams	As of 31 December 2023	As of 31 December 2022
Spare parts	247,964	281,880
SIM cards and prepaid phone cards	102,884	105,796
Handsets and accessories	57,727	186,224
Other	98,088	165,911
	506,663	739,811

9 Trade and other receivables

In thousand drams	As of 31 December 2023	As of 31 December 2022
Financial assets		
Receivables from mobile services	1,860,866	2,311,707
Receivables from interconnection	489,436	384,703
Receivables from roaming services	71,839	1,136,688
Receivables from dealers	94,732	126,676
Receivables from sale of handsets	56,705	70,356
Other receivables	76,067	59,865
Allowances for expected credit losses	(199,653)	(720,190)
	2,449,992	3,369,805

Non-financial assets		
Current advances for goods and services	348,887	129,417
Prepaid taxes	12,171	17,081
	361,058	146,498
	2,811,050	3,516,303

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 (2022: 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	2023	2022
Loss allowance as of 1 January	720,190	1,389,983
Increase/(decrease) in the allowance during the year	66,452	(66,678)
Written off during the year	(586,989)	(603,115)
Loss allowance as of 31 December	199,653	720,190

Note 25 (b) includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses.

Refer to note 25 (a) for the currencies in which trade and other receivables are denominated.

10 Loans provided

In thousand drams	As of 31 December 2023	As of 31 December 2022
Mobile Telesystems PJSC	20,895,006	15,703,443
RAO Mars CJSC	-	9,007
	20,895,006	15,712,450

The loan to Mobile Telesystems PJSC (parent company) is provided in US dollars and bears 4% of 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 2023	As of 31 December 2022
Bank accounts	8,976,737	9,776,823
Cash in hand	23,874	30,659
Cash in transit	528,413	420,586
	9,529,024	10,228,068

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 2023	Ordinary shares 2022
Authorized shares		
Number of ordinary shares of drams 1,000 each	550,000	550,000

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

12.2 Dividends

According to the decision of the Company's sole shareholder, the dividends declared in 2023 at drams 9,000,000 thousand have been offset (net of tax) with the loan balance of Mobile Telesystems PJSC (parent company). The outstanding balance of dividend as of 31 December 2023 amounting to drams 21,669,500 thousand has been offset with the remaining balance of the loan in January 2024.

In 2022 the dividend paid to the holders of ordinary shares was drams 15,000,000 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 2023	As of 31 December 2022
Minimum lease payments, including:		
Less than 1 year	2,071,907	2,225,120
From 1 to 5 years	4,392,931	4,231,444
Over 5 years	1,600,025	2,011,519
	8,064,863	8,468,083
Less amount representing interest	2,578,155	2,893,124
Present value of minimum lease payments, including:		
Less than 1 year	1,471,190	1,625,381
From 1 to 5 years	3,271,006	3,087,748
Over 5 years	744,512	861,830
	5,486,708	5,574,959
Including:		
Current	1,471,190	1,625,381
Non-current	4,015,518	3,949,578

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 2023 was drams 647,127 thousand (2022: drams 745,261 thousand) and was included in "finance costs".

14 Contract liabilities

In thousand drams	As of 31 December 2023	As of 31 December 2022
Prepaid mobile revenues	921,304	944,076
Roaming deposits	44,500	53,540
Other prepayments received	524,011	285,935
	1,489,815	1,283,551

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 1,664,846 thousand (year ended 31 December 2022: drams 1,474,271 thousand).

The Group expects to recognize the entire amount of contract liabilities as of 31 December 2023 as revenue during 2024.

15 Trade and other payables

In thousand drams	As of 31 December 2023	As of 31 December 2022
Trade payables	1,538,153	2,084,804
Payables to employees	1,503,860	2,068,885
Payables to the State budget	2,645,322	1,545,706
Payables for acquisition of telecom equipment and software	247,458	16,659
Other payables and accruals	1,406,298	1,212,150
	7,341,091	6,928,204

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

Refer to note 25 (a) for more information about the Group's exposure to foreign currency risk.

16 Mobile services

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Revenue from GPRS	27,240,468	25,582,382
Voice air-time revenue	10,708,457	11,083,066
Interconnection services	4,953,727	5,008,358
Revenue from SMS	3,682,757	3,267,062
Roaming services	1,588,220	1,131,788
Subscription revenue	870,486	959,158
Other value-added services	1,190,115	1,063,845
Other revenue	189,277	231,873
	50,423,507	48,327,532

17 Interconnection and roaming costs

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Interconnection costs	3,548,039	3,104,802
Roaming costs	912,188	639,418
	4,460,227	3,744,220

18 Other network operating costs

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Radio frequencies charges	3,097,209	2,881,236
Maintenance of billing system and network equipment	1,135,411	1,119,975
Electric power	1,294,158	1,243,484
GPRS costs	240,942	273,517
Short-term leases	269,700	240,100
Content services	637,514	565,010
Other	12,646	92,411
	6,687,580	6,415,733

19 Other operating expenses

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Marketing and advertisement	545,623	607,787
Dealers' commissions	529,025	527,801
Office and utility expenses	572,152	555,494
Collection costs from agents	418,864	194,385
Bank charges	408,105	182,256
Donations and sponsorship	220,230	365,200
Trademark royalty fee	207,123	194,095
Tax expenses and state duties	222,234	478,198
Security	190,986	183,728
Travel and training costs	153,262	170,187
Impairment of inventories	159,739	391,774
Other expenses	1,001,767	727,643
	4,629,109	4,578,548

20 Finance income

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Interest income on loans provided	714,437	609,807
Interest income on bank deposits	-	45,699
Interest income on cash and cash equivalents	186,591	53,537
	901,028	709,043

21 Net gain/(loss) from exchange differences

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Financial assets at amortized cost	178,133	(5,406,488)
Financial liabilities at amortized cost	(48,525)	289,002
	129,608	(5,117,486)

22 Income tax expense

In thousand drams	Year ended 31 December 2023	Year ended 31 December 2022
Current tax	2,440,171	2,572,838
Adjustments recognized in the current year in relation to the current tax of prior years	69,133	-
Deferred tax	685,656	1,175,759
	3,194,960	3,748,597

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2023	Effective tax rate (%)	Year ended 31 December 2022	Effective tax rate (%)
Profit before taxation (under IFRSs)	14,828,874		8,749,804	
Tax calculated at a tax rate of 18% (2022: 18%)	2,669,197	18.0	1,574,965	18.0
(Non-taxable)/non-deductible items, net	268,806	1.8	2,009,290	23.0
Effect of transfer pricing	217,536	1.5	164,342	1.9
Use of accumulated tax losses	(29,712)	(0.2)	-	-
Adjustments recognized in the current year in relation to the current tax of prior years	69,133	0.5	-	-
Income tax expense	3,194,960	21.5	3,748,597	42.8

23 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.

23.1 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 intangible assets

Management of the Group estimated useful lives of telecommunication systems and related intangible assets up to 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 25 (b).

Climate-related matters

Management continuously assesses the impact of climate-related matters. This assessment includes a wide range of possible impacts on the Group due to both physical and transition risks. These risks include the threat of financial loss and adverse non-financial impacts that encompass the political, economic, and environmental responses to climate change. These risks are receiving increasing regulatory, political, and societal scrutiny, both within the country and internationally. While certain physical risks may be predictable, there are significant uncertainties as to the extent and timing of their manifestation. For transition risks, uncertainties remain as to the impacts of the impending regulatory and policy shifts, changes in consumer demands and supply chains.

The long-term consequences of climate changes on financial statements are difficult to predict and require management to make significant assumptions and develop estimates. In many cases, the judgements applied refer to the recoverable amount of assets and useful lives of depreciable assets.

The Group believes that climate-related matters do not result in material uncertainty in estimates and assumptions underpinning any of the items in the financial statements. Even though climate-related risks might not currently have a significant impact on measurement, the Group is closely monitoring relevant changes and developments, such as new climate-related legislation.

24 Financial instruments

24.1 Material 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 3.7.

24.2 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 2023	As of 31 December 2022
Amortized cost		
Loans provided	20,895,006	15,712,450
Trade and other receivables	2,449,992	3,369,805
Short-term loans to employees	302,373	276,095
Cash and cash equivalents	9,529,024	10,228,068
	33,176,395	29,586,418

Financial liabilities

In thousand drams	As of 31 December 2023	As of 31 December 2022
Amortized cost		
Dividends payable	21,669,500	-
Lease obligations	5,486,708	5,574,959
Trade and other payables	4,695,769	5,382,498
	31,851,977	10,957,457

25 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 2023	US dollar	Euro	Ruble	Yuan
Financial assets				
Loans provided	20,895,006	-	-	-
Trade and other receivables	36,277	529,033	13,598	-
Cash and cash equivalents	548,291	144,269	361,319	77,916
	21,479,574	673,302	374,917	77,916
Financial liabilities				
Lease obligations	3,715	-	-	-
Trade and other payables	329,248	598,076	84,910	-
	332,963	598,076	84,910	-
Net position	21,146,611	75,226	290,007	77,916

Item				
As of 31 December 2022	US dollar	Euro	Ruble	Yuan
Financial assets				
Loans provided	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

The following table details the Group’s sensitivity to a 10% (2022: 10%) increase and decrease in dram against relevant currency. 10% (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% change in foreign currency rates.

If Armenian dram had strengthened against relevant currency by 10% this would have had the following impact on the financial performance of the Group:

In thousand drams	2023	2022
US dollar	(2,114,661)	(2,081,623)
Euro	(7,523)	(269,178)
Ruble	(29,001)	(11,500)

Exposure to foreign exchange rates vary during the year depending on the volume of transactions in foreign currencies. 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, loans 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 2023	As of 31 December 2022
Loans provided	20,895,006	15,712,450
Loans to employees	302,373	276,095
Trade and other receivables	2,449,992	3,369,805
Bank balances	9,505,150	10,197,409
	33,152,521	29,555,759

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

Current account balances are held in several banks that have a long-term risk rating of B+ to BB- according to S&P credit rating agency.

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

Loans provided

As described in note 10, the Group provided loan to MTS PJSC (parent company) at the amount of drams 20,895,006 thousand (15,703,443 thousand drams).

The Group management concluded that there is no credit risk in relation to these amounts as of the reporting date, since this balance will be offset with dividends payable, hence no allowance for expected credit losses was recorded (refer to note 12.2).

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 2023 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 2023 was determined as follows:

31 December 2023	Expected credit loss	Gross carrying amount	Lifetime expected credit loss
0 - 30	1%	1,525,068	13,111
31- 60	5%	154,819	8,470
61 - 90	14%	59,660	8,098
91 - 120	19%	37,858	7,072
121 - 150	21%	19,547	4,108
151 - 180	26%	16,616	4,281
181 - 210	32%	13,549	4,293
211 - 360	46%	58,530	27,096
361 - more	100%	123,124	123,124
		2,008,772	199,653

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

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.

2023	Trade and other payables	Lease obligations	Total
Weighted average effective interest rate	*Interest free*	*14%*	
Less than 6 months	4,695,769	1,157,917	5,853,686
6 months to 1 year	-	913,990	913,990
1-5 years	-	4,392,931	4,392,931
More than 5 years	-	1,600,025	1,600,025
	4,695,769	8,064,863	12,760,632

2022	Trade and other payables	Lease obligations	Total
Weighted average effective interest rate	*Interest free*	*14%*	
Less than 6 months	5,382,498	1,254,330	6,636,828
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
	5,382,498	8,468,083	13,850,581

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

26 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 2022	-	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 accrued	-	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
Cash-flows			
Repayments	-	(2,439,662)	(2,439,662)
Non-cash			
Dividend declared	31,810,000	-	31,810,000
Income tax accrued	(1,590,500)	-	(1,590,500)
Offset with loans (note 12.2)	(8,550,000)	-	(8,550,000)
Interest accrued	-	647,127	647,127
Additions	-	2,306,331	2,306,331
Terminations		(600,429)	(600,429)
Foreign exchange loss	-	(1,618)	(1,618)
as of 31 December 2023	21,669,500	5,486,708	27,156,208

27 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).

27.1 Fair value measurement of financial instruments

Financial instruments measured at amortized cost

The carrying amount of the Group'’s financial instruments are considered to be a reasonable approximation of the fair value.

Trade receivables and payables, cash and cash equivalents and loans are either liquid or short-term, thus, it is assumed that the carrying amount is close to their fair value.

Fair value of lease liabilities is estimated by the discounted cash flows method, using the market interest rates that the Group would have to pay at the reporting date to obtain a loan with a similar term and security for the purpose of acquiring a right-of-use asset at a similar value in a similar economic environment. The most significant variable is the discount rate.

The Group’s financial instruments are categorized within Level 2 of the fair value hierarchy.

28 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 (2022: nil).

29 Commitments

29.1 Capital commitments

The Group has entered into contracts to purchase property and equipment and intangible assets for drams 4,747,737 thousand (2022: drams 5,191,035 thousand).

30 Contingencies

30.1 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.

30.2 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.

31 Related parties

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

31.1 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.

In 2024 the Company announced about change of its shareholder (refer to note 32).

31.2 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 2023	Year ended 31 December 2022
Parent		
Provision of services and sale of goods	2,886,780	1,805,509
Acquisition of goods and services	3,441,393	1,720,853
Accrual of interest income	714,408	602,726
Entities under common control		
Acquisition of goods and services	266,564	307,343
Key management		
Payroll and employee benefits	1,608,170	1,481,351

In thousand drams

Outstanding balances	As of 31 December 2023	As of 31 December 2022
Parent		
Trade and other receivables	754,132	1,619,477
Trade and other payables	645,145	978,665
Loans provided	20,895,006	15,703,443
Entities under common control		
Trade and other receivables	-	87
Trade and other payables	-	550
Key management		
Trade and other payables	661,045	584,639

32 Subsequent events

New shareholders

In January 2024 the Company announces a change of its shareholder and is no longer belongs to the Russian MTS Group. The Company's new shareholder is Fedilco Group Limited, a company duly incorporated in Cyprus and registered in the commercial register of the city of Nicosia under number HE 433524. The ultimate beneficiaries of Fedilco Group Limited are Mr. Zhe Zhang and Mr. Konstantin Sokolov. The transaction was duly registered in the Central Depository of Armenia on 23 January 2024.

Considering the strategic importance of the Company for Armenia, Fedilco Group Limited transferred 20% of the shares of Viva Armenia to the Republic of Armenia. The transaction has been duly registered on 25 March 2024.

Name change

On 25 March 2024, as per the amendment registered by the RA MOJ Agency for State Register of Legal Entities, the name of MTS Armenia CJSC has been changed to Viva Armenia CJSC.