Coca-Cola Hellenic Bottling Company Armenia CJSC

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

31 December 2020

Contents

Independent Auditor's report

FINANCIAL STATEMENTS

Statement of Financial Position 1
Statement of Profit or Loss and Other Comprehensive Income 2
Statement of Changes in Equity 3
Statement of Cash Flows 4

Notes to the financial statements

1 Coca-Cola Hellenic Bottling Company Armenia CJSC and its Operations 5
2 Operating Environment of the Company 5
3 Summary of Significant Accounting Policies 7
4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies 12
5 Adoption of New or Revised Standards and Interpretations 12
6 New Accounting Pronouncements 12
7 Property, Plant and Equipment 14
8 Intangible Assets 14
9 Prepayments for Property, Plant and Equipment 15
10 Loans issued 15
11 Inventories 15
12 Trade and Other Receivables 16
13 Cash and Cash Equivalents 17
14 Share Capital 17
15 Right-of-use assets and lease liabilities 18
16 Trade and Other Payables 18
17 Deposit Liabilities 18
18 Analysis of Revenue by Category 19
19 Operating Income and Expenses 19
20 Income Taxes 20
21 Contingencies and Commitments 21
22 Financial Risk Management 21
23 Management of Capital 25
24 Fair Value of Financial Instruments 25
25 Presentation of Financial Instruments by Measurement Category 25
26 Balances and Transactions with Related Parties 26
27 Events After Reporting Period 27

Independent Auditor's Report

To the shareholder of Coca-Cola Hellenic Bottling Company Armenia CJSC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Coca-Cola Hellenic Bottling Company Armenia CJSC (the "Company") as at 31 December 2020, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

PricewaterhouseCoopers Armenia LLC
2 Vazgen Sargsyan street, KAMAR Business Center, 8th floor, Yerevan 0010, Armenia
T: (+374 10) 51 21 51, F: (+ 374 10) 52 10 00, www.pwc.com/am

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

Alexey Rusanov
Director

PricewaterhouseCoopers Armenia LLC

14 July 2021

Yerevan, Republic of Armenia

In thousands of Armenian Drams	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	7	5,585,156	5,627,691
Intangible assets	8	197,685	275,179
Prepayments for property, plant and equipment	9	23,895	307,744
Other non-current assets		117,970	165,000
Loans issued	10	3,358,578	4,972,891
Total non-current assets		**9,283,284**	**11,348,505**
Current assets			
Inventories	11	1,758,740	1,695,994
Trade and other receivables	12	391,971	372,369
Loans Issued	10	2,054,263	705,916
Cash and cash equivalents	13	1,672,881	817,420
Total current assets		**5,877,855**	**3,591,699**
TOTAL ASSETS		**15,161,139**	**14,940,204**
EQUITY			
Share capital	14	1,009,875	1,009,875
Retained earnings		9,996,842	8,055,039
TOTAL EQUITY		**11,006,717**	**9,064,914**
LIABILITIES			
Non-current liabilities			
Lease Liabilities	15	172,410	162,500
Deferred tax liability	20	195,917	21,785
Total non-current liabilities		**368,327**	**184,285**
Current liabilities			
Borrowings		-	91,570
Lease Liabilities	15	86,529	100,503
Trade and other payables	16	3,094,121	4,887,870
Current Income tax payable		382,483	399,104
Deposit liabilities	17	222,962	211,958
Total current liabilities		**3,786,095**	**5,691,005**
Total liabilities		**4,154,422**	**5,875,290**
TOTAL LIABILITIES AND EQUITY		**15,161,139**	**14,940,204**

Approved for issue and signed on 14 July 2021.

Artur Sahakyan
General Director

Karine Yolyan
Accounting and Tax Manager

The accompanying notes on pages 5 to 27 are an integral part of these financial statements.

In thousands of Armenian Drams	Note	2020	2019
Revenue	18	20,416,005	22,189,991
Cost of sales	19	(11,343,511)	(12,669,447)
Gross profit		**9,072,494**	**9,520,544**
Other operating income	19	756,389	793,344
Distribution expenses	19	(2,620,089)	(2,667,880)
General and administrative expenses	19	(997,088)	(1,271,063)
Advertising and marketing services	19	(1,009,893)	(1,784,781)
Other operating expenses	19	(941,907)	(1,025,853)
Operating profit		**4,259,906**	**3,564,311**
Finance income		157,066	171,468
Finance cost		(21,364)	(27,637)
Profit before income tax		**4,395,608**	**3,708,142**
Income tax expense	20	(1,014,795)	(738,782)
Profit for the year		**3,380,813**	**2,969,360**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,380,813**	**2,969,360**

In thousands of Armenian Drams	**Share capital**	**Retained earnings**	**Total equity**
Balance at 1 January 2019	**1,009,875**	**7,885,679**	**8,895,554**
Total comprehensive income for 2019	-	2,969,360	2,969,360
Dividends declared	-	(2,800,000)	(2,800,000)
Balance at 31 December 2019	**1,009,875**	**8,055,039**	**9,064,914**
Total comprehensive income for 2020	-	3,380,813	3,380,813
Dividends declared	-	(1,439,010)	(1,439,010)
Balance at 31 December 2020	**1,009,875**	**9,996,842**	**11,006,717**

In thousands of Armenian Drams	Note	2020	2019
Cash flows from operating activities			
Profit before income tax		4,395,608	3,708,142
Adjustments for:			
Depreciation of property, plant and equipment	19	1,060,214	1,073,731
Amortisation of other intangible assets	19	87,112	85,382
Write-off of property, plant and equipment		105,338	(30,863)
Impairment/(recovery) of trade and other receivables		37,343	(16,433)
Movement in deposit liabilities		11,004	80,387
Finance income		(157,066)	(171,468)
Finance costs		21,364	27,637
Foreign exchange translation differences	19	(174,156)	43,972
Other non-cash operating costs		(13,628)	93,305
Operating cash flows before working capital changes		**5,373,133**	**4,893,272**
Increase in inventories		(62,746)	(36,142)
(Decrease)/increase in trade and other payables		(1,991,651)	729,723
(Increase)/decrease in trade and other receivables		(9,915)	500,682
Changes in working capital		**(2,064,312)**	**1,194,263**
Income tax paid		(857,284)	(836,617)
Interest income received		157,066	113,748
Net cash from operating activities		**2,608,603**	**5,365,186**
Cash flows from investing activities			
Purchases of property, plant and equipment		(728,768)	(1,085,476)
Acquisition of intangible assets		(9,618)	(6,135)
Proceeds from the sale of property, plant and equipment		-	13,081
Net cash used in investing activities		**(738,386)**	**(1,078,530)**
Cash flows from financing activities			
Proceeds of borrowings		494,744	989,516
Repayment of borrowings		(586,314)	(987,313)
Lease repayments		(135,828)	(134,525)
Loans granted to related party		(3,148,680)	(4,829,558)
Repayment of loans granted to related parties		3,791,459	3,905,960
Dividends payment		(1,439,010)	(2,800,000)
Net cash used in financing activities		**(1,023,629)**	**(3,855,921)**
Effect of exchange rate changes on cash and cash equivalents		8,873	(4,338)
Cash and cash equivalents at the beginning of the year		**817,420**	**391,022**
Cash and cash equivalents at the end of the year		**1,672,881**	**817,420**

1 Coca-Cola Hellenic Bottling Company Armenia CJSC and its Operations

These financial statements have been prepared for Coca-Cola Hellenic Bottling Company Armenia CJSC (the “Company”) for the year ended 31 December 2020.

The Company was incorporated and is domiciled in the Republic of Armenia (the “RA”). The Company is a closed joint stock company limited by shares and was set up in accordance with Armenian regulations.

As of 31 December 2020 the Company’s immediate parent company was CC Beverages Holdings II B.V. (2019:Leman Beverages S.A.R.L.) incorporated, existing and organized under the laws of the Netherlands, the merger took place on 30 October 2020 between CC Beverages Holdings II B.V. and Leman Beverages Holding S.A.R.L. the registration in the RA business registry took place in 2021. The Company is ultimately controlled by Coca-Cola Hellenic Bottling Company S.A. incorporated in Switzerland (since 2013).

Principal activity. The Company’s principal business activity is the production, import and distribution of non-alcoholic and alcoholic beverages within the RA. The Company’s manufacturing facilities are primarily based in Yerevan, the RA.

Registered address and place of business. The Company’s registered address is Tbilisi Highway Lane, 8/3 Building, 0052 Yerevan, the RA.

Presentation currency. These financial statements are presented in Armenian Drams ("AMD"), unless otherwise stated.

2 Operating Environment of the Company

Republic of Armenia. The Republic of Armenia displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 19). The economic environment of the Republic of Armenia is significantly influenced by the level of business activity in the Russian Federation and significant cash movements flow from the Russian Federation to the Republic of Armenia. Therefore, ongoing political tension in the region, international sanctions, stock market volatility and other risks experienced in the Russian Federation could have a negative effect on the financial and corporate sectors of the Republic of Armenia.

COVID-19. In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Armenian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. These measures have, among other things, severely restricted economic activity in the Republic of Armenia and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Company, as well as the Armenian and global economy for an unknown period of time.

Management is taking necessary measures to ensure sustainability of the Company’s operations and support its customers and employees. Measures for maintaining Company’s operations are not limited to the following:

1. Temperature measurements for all employees, contractors and guests at the security gate, and before leaving the factory (2 times daily)

2. Employees who have temperature and not feeling well are sent home/hospital, and not allowed to return to workplace without negative PCR test result. All the tests were done on behalf of the company.

3. Maintaining 1.5-2 m social distancing in all our departments (floors and tables are marked)

4. Area’s disinfections being done twice a day (records are kept at the security department)

5. Informative posters are available in every department reminding the employees about the necessary measures need to be taken during the pandemic.

2 Operating Environment of the Company (Continued)

The following support actions were in place for community and our customers:

1. Coca-Cola HBC Armenia purchased portable medical equipment for hospitals in the local communities.
2. The company also supplied water of its own production to the hospitals free of charge. Donated: 82,655 bottles
3. Support to customers with free of charge beverages and marketing equipment approx. AMD 15.1 mln

War in Nagorny Karabakh and its consequences. In September 2020 the war in Nagorny Karabakh started and continued until November 2020 when a statement was signed by the leaders of the Republic of Armenia, the Republic of Azerbaijan and the Russian Federation. According to the statement a number of territories located in Nagorny Karabakh region were transferred to Azerbaijan, and economic and transport connections in the region shall be unblocked. Decisions about unblocking of economic and transport connections are currently being developed by the expert groups. All these events and activities significantly affect the economy of the Republic of Armenia.

Activities of the Company were affected by the War in the following ways:

1. Lost volume in the region (approx. AMD 567.5 mln in Gross Sales Revenue)
2. Lost marketing equipment in the region (provision amount was AMD 94.8 mln)
3. No credit risk for distributor’s debt since bank guarantee of 75 mln AMD is available

The future effects of the current economic situation and the measures taken by the Government are difficult to predict and management’s current expectations and estimates could differ from actual results.

Expected credit losses. For the purpose of measurement of expected credit losses (“ECL”) on the Company’s loans, receivables and similar assets the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 22 provides more information of how the Company incorporated forward-looking information in the ECL models.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes effective from 1 January 2020, these policies have been consistently applied to all the periods presented, unless otherwise stated. (refer to Note 5).

Foreign currency translation. The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the national currency of the RA, AMD.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Republic of Armenia (the "CBA") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBA are recognised in profit or loss for the period. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2020 the principal rate of exchange used for translating foreign currency balances was US Dollars ("USD") 1 = AMD 522.59 (31 December 2019: USD 1 = AMD 479.70), European Union currency ("Euro") 1 = AMD 641.11 (31 December 2019: Euro 1 = AMD 537.26), Great Britain Pound Sterling ("GBP") 1 = AMD 709.47 (31 December 2019: GBP 1 = AMD 629.13), Russian Roubles ("RUB") 1 = AMD 7.02 (31 December 2019: RUB 1 = AMD 7.77).

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each end of the reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the statement of comprehensive income for the year.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings, plant and machinery	4-40
Motor vehicles	5-8
Marketing equipment	2-15
Other	2-12

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3 Summary of Significant Accounting Policies (Continued)

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised software. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Internally developed software	10
Acquired software licenses	4

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Classes of financial instruments. The Company classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><td colspan="2">Category as defined by IAS 39</td><td>Classes as defined by the Company</td></tr>
<tr><td rowspan="3">Financial assets</td><td rowspan="3">Loans and receivables</td><td>Loans issued</td></tr>
<tr><td>Trade and other receivables</td></tr>
<tr><td>Cash and cash equivalents</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities carried at amortised cost</td><td>Borrowings</td></tr>
<tr><td>Trade and other payables</td></tr>
</table>

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Company may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.
Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses *("ECL")*. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates.

Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the asset or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Financial assets impairment – credit loss allowance for ECL. The company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The company measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

3 Summary of Significant Accounting Policies (Continued)

Debt instruments measured at AC and contract assets are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Company applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 12 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Company. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Value added tax. Output value added tax related to sales is payable to tax authorities on the delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a net basis and disclosed separately as an asset or liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3 Summary of Significant Accounting Policies (Continued)

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in statement of comprehensive income for the year.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount.

Revenue recognition.

Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. Discounts are provided at the time of the sale in a point in time basis.

No element of financing is deemed present as the sales are made with a credit term of 30 days or immediate payment, which is consistent with market practice. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Employee benefits. Wages, salaries, contributions to the RA state pension funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

Deposit liabilities. A deposit liability is recognised when the returnable containers are delivered to the customer. The asset "returnable containers in plant/warehouse" is then reclassified to "returnable containers in trade". The transfer occurs at the carrying value multiplied by the quantity. The carrying value of the returnable containers is equal to the deposit value. This reclassification occurs on a monthly basis. An estimate is made regarding the number and value of returnable containers broken or lost and not expected to be returned. This estimate is recorded both as a reduction in the returnable container account and the deposit liability account and is based on historical return rates and management's past experience.

Presenting foreign exchange differences in the Statement of Cash Flows. The Company made a decision to exclude foreign exchange differences from the amounts of changes in accounts receivable and payables and present their amounts within adjustments to profit before tax on non-cash items.

Amendment of the financial statements after issue. Any changes to these financial statements after issue require approval of the Company's management who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimate that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Armenian tax and customs legislation is subject to varying interpretations. Management believes its interpretations and estimates based on taxation legislation are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities, refer to Note 20.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Where the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2020 would increase/decrease by AMD 106,021 thousand (31 December 2019: AMD 107,373 thousand).

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Company:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Company has not early adopted.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

6 New Accounting Pronouncements (Continued)

'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Company is currently assessing the impact of the amendments on its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Company is currently assessing the impact of the amendments on its financial statements.

Deferred tax related to assets and liabilities arising from a single transaction ***– Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).*** The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Company is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Armenian Drams	Land	Buildings, Plant and machinery	Motor vehicles	Marketing equipment	Other	Construction in progress	ROU assets	Total
Carrying amount at 01 January 2019	**61,993**	**3,209,663**	**290,161**	**1,301,949**	**232,882**	**380,860**	**-**	**5,477,508**
Additions	7,931	148,582	9,331	722,819	115,754	-	369,890	1,374,308
Disposals	-	-	-	(1,491)	(148,902)	-	-	(150,393)
Transfers	-	380,860	-	-	-	(380,860)	-	-
Depreciation charge	-	(465,314)	(96,023)	(344,064)	(50,929)	-	(117,401)	(1,073,731)
Carrying amount at 31 December 2019	**69,924**	**3,273,791**	**203,469**	**1,679,213**	**148,805**	**-**	**252,489**	**5,627,691**
Additions	-	236,827	130,053	609,876	39,925	-	106,336	1,123,017
Disposals	-	(8,680)	-	(96,658)	-	-	-	(105,338)
Depreciation charge	-	(431,938)	(72,270)	(387,433)	(54,723)	-	(113,850)	(1,060,214)
Carrying amount at 31 December 2020	**69,924**	**3,070,000**	**261,252**	**1,804,998**	**134,007**	**-**	**244,975**	**5,585,156**

8 Intangible Assets

In thousands of Armenian Drams	Internally developed software	Acquired software licenses	Total
Carrying amount at 1 January 2019	**350,973**	**3,452**	**354,425**
Additions	6,136	-	6,136
Amortisation charge	(85,382)	-	(85,382)
Carrying amount at 31 December 2019	**271,727**	**3,452**	**275,179**
Additions	9,618	-	9,618
Amortisation charge	(87,112)	-	(87,112)
Carrying amount at 31 December 2020	**194,233**	**3,452**	**197,685**

9 Prepayments for Property, Plant and Equipment

Movements in prepayments are as follows:

In thousands of Armenian Drams	Prepayments for property, plant and equipment
Carrying value at 1 January 2019	**133,307**
Additions	313,462
Prepayments transferred to property, plant and equipment on receipt of related goods or services	(139,025)
Total prepayments for property, plant and equipment at 31 December 2019	**307,744**
Additions	21,256
Prepayments transferred to property, plant and equipment on receipt of related goods or services	(305,105)
Total prepayments for property, plant and equipment at 31 December 2020	**23,895**

10 Loans issued

Loans issued are Company's excess cash provided to Coca-Cola HBC Finance B.V., which acts as a financing entity for the companies belonging to Coca-Cola HBC AG. At 31 December 2020, loans issued of AMD 644,405 thousand (2019: AMD 649,217 thousand) are denominated in EUR, AMD 4,768,436 thousand (2019: AMD 5,029,590 thousand) are denominated in USD.

The classification of the loan either to current or non-current is done based on the maturity of the contracts. As per contract terms for the placements in EUR the interest rate is defines as 3M EURIBOR +2.498% and for USD placements 3M USD Libor + 3.519%, both rates are to be reset on a quarterly basis and new rate determined.

The company applies IFRS 9 to measuring expected credit losses which uses a 12-month expected credit loss for the loans issued. Based on the analysis performed by the management of the company the expected credit loss as at 31 December 2020 is not significant.

11 Inventories

In thousands of Armenian Drams	31 December 2020	31 December 2019
Raw materials	582,414	503,420
Purchased goods	421,752	292,100
Manufactured goods	158,337	293,055
Spare parts	73,958	75,247
Returnable containers in warehouse	159,833	171,090
Returnable containers in trade	222,962	211,958
Other consumables	139,484	149,124
Total inventories	**1,758,740**	**1,695,994**

12 Trade and Other Receivables

In thousands of Armenian Drams	31 December 2020	31 December 2019
Trade receivables	217,594	153,594
Less impairment loss provision	(66,703)	(65,942)
Total financial assets within trade and other receivables	**150,891**	**87,652**
Prepayments	230,785	277,652
VAT recoverable	7,885	1,292
Other receivables	2,410	5,773
Total trade and other receivables	**391,971**	**372,369**

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

The expected loss rates are based on the payment profiles of customers over a period of 36 month before each balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based the number of days that an asset is past due, adjusted for LGD rate.

	31 December 2020				31 December 2019			
In % of gross value	**Loss Rate**	**Gross carrying amount**	**Lifetime ECL**	**Net carrying value**	**Loss rate**	**Gross carrying amount**	**Lifetime ECL**	**Net carrying value**
Trade receivables								
- current	*0.20%*	121,068	*243*	*120,825*	*1%*	*50,820*	*508*	*50,312*
- less than 14 days overdue	*2.35%*	4,384	*103*	*4,281*	*3%*	*4,593*	*138*	*4,455*
- 15 to 30 days overdue	*9.99%*	1,334	*133*	*1,201*	*11%*	*1,973*	*217*	*1,756*
- 31 to 60 days overdue	*12.94%*	4,332	*560*	*3,772*	*13%*	*3,685*	*479*	*3,206*
- 61 to 90 days overdue	*20.15%*	3,698	*745*	*2,953*	*19%*	*1,647*	*313*	*1,334*
- 91 to 120 days overdue	*24.58%*	2,696	*663*	*2,033*	*22%*	*1,909*	*420*	*1,489*
- more than 120 days overdue	*26.81%*	21,623	*5,797*	*15,826*	*22%*	*32,179*	*7,079*	*25,100*
Individually assessed	*100%*	*58,459*	*58,459*	*-*	*100%*	*56,788*	*56,788*	-
Total	-	**217,594**	**66,703**	**150,891**	-	**153,594**	**65,942**	**87,652**

12 Trade and Other Receivables (Continued)

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

The movement in the impairment provision for trade receivables during 2020 is as follows:

In thousands of Armenian Drams	2020	2019
Provision for impairment at 1 January	**65,942**	**91,029**
Provision/(recovery) for impairment during the year	761	(25,867)
Provision for impairment at 31 December	**66,703**	**65,942**

The Company has assessed the risk for Other receivables and believes that the amount of risk and provision is immaterial.

Movements in prepayments for current assets are as follows:

In thousands of Armenian Drams	Prepayments for current assets
Carrying value at 1 January 2019	**326,201**
Additions	8,311,893
Prepayments derecognised on receipt of related goods or services	(8,360,442)
Total prepayments for current assets at 31 December 2019	**277,652**
Additions	6,401,133
Prepayments derecognised on receipt of related goods or services	(6,448,000)
Total prepayments for current assets at 31 December 2020	**230,785**

13 Cash and Cash Equivalents

In thousands of Armenian Drams	31 December 2020	31 December 2019
Bank balances payable on demand	1,669,101	816,212
Cash on hand	3,780	1,208
Total cash and cash equivalents	**1,672,881**	**817,420**

Bank balances payable on demand are held at top 10 Armenian banks and are classified as current and not impaired (31 December 2019: top 10 Armenian banks, current and not impaired).

14 Share Capital

The total authorised number of ordinary shares is 25 shares (31 December 2019: 25 shares) with a par value of AMD 53,874 thousand per share (2019: AMD 53,874 thousand per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote. The total amount of share capital in the Company's financial statements differs from the Company's Charter by AMD 336,975 thousand (2019: AMD 336,975 thousand) due to the fact that the registration of the change in the Company's share capital by the State register is still in process as of the date of these financial statements.

15 Right-of-use assets and lease liabilities

In thousands of Armenian Drams	Vehicles	Total
Carrying amount at 1 January 2020	**252,489**	**252,489**
Additions	106,336	106,336
Disposals	-	-
Depreciation charge	(113,850)	(113,850)
Carrying amount at 31 December 2020	**244,975**	**244,975**

The Company recognised lease liabilities as follows:

In thousands of Armenian Drams	31 December 2020	1 January 2020
Short-term lease liabilities	86,529	100,503
Long-term lease liabilities	172,410	162,500
Total lease liabilities	**258,939**	**263,003**

Interest expense included in finance costs of 2020 was AMD 21,364 thousand. (2019: AMD 27,637).

16 Trade and Other Payables

In thousands of Armenian Drams	31 December 2020	31 December 2019
Trade payables	2,662,023	4,188,639
Accrued liabilities	290,234	275,863
Total financial payables within trade and other payables	**2,952,257**	**4,464,502**
Liabilities to staff (incl. bonuses and unused vacation provision)	139,732	411,822
Personal income tax payables	-	7,710
Other taxes payable	2,132	3,836
Total trade and other payables	**3,094,121**	**4,887,870**

17 Deposit Liabilities

In thousands of Armenian Drams	31 December 2020	31 December 2019
Liabilities for returnable bottles in trade	150,109	85,168
Liabilities for returnable cases in trade	72,853	126,790
Total deposit liabilities	**222,962**	**211,958**

18 Analysis of Revenue by Category

Revenues from external customers for each group of similar products or services are as follows:

In thousands of Armenian Drams	2020	2019
Sales of manufactured goods	14,125,969	15,142,453
Sales of purchased goods	6,290,036	7,047,538
Total revenue	**20,416,005**	**22,189,991**

The revenue from the sale of goods is recognized at a point-in-time basis when the goods are delivered to the customers.

19 Operating Income and Expenses

Operating expenses

In thousands of Armenian Drams	Note	2020	2019
Materials and components used		5,395,683	6,051,367
Cost of purchased goods sold		4,419,840	4,788,302
Staff costs		2,349,438	3,234,103
Depreciation of property, plant and equipment	7	1,060,214	1,073,731
Advertising expenses		916,653	1,502,656
Information, consulting and other professional services		449,596	451,875
Intercompany consulting fees		400,871	348,301
Utilities and communication expenses		319,865	367,396
Loss of finished goods and materials		159,706	211,557
Repairs and maintenance services		132,231	131,577
Fuel Consumed		112,077	156,891
Losses less gains on disposal of property, plant and equipment		107,858	-
Amortisation of intangible assets	8	87,112	85,382
Business trips and representation		58,914	124,888
Spare parts consumed		51,282	57,279
Insurance expenses		37,844	-
Taxes other than on income		27,383	14,023
Training costs		19,398	100,941
Other expenses		941,241	751,837
Changes in inventories of finished goods and work in progress		(134,718)	(33,082)
Total operating expenses		**16,912,488**	**19,419,024**

Other operating income

In thousands of Armenian Drams	2020	2019
Debt forgiveness	519,629	655,951
Foreign exchange gains less losses	148,504	-
Recovery of trade and other receivables	-	16,433
Gains less losses on disposal of property, plant and equipment	-	30,863
Other income	88,256	90,097
Total other operating income	**756,389**	**793,344**

20 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Armenian Drams	2020	2019
Current tax	840,663	955,174
Deferred tax	174,132	(216,392)
Income tax expense for the year	**1,014,795**	**738,782**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Company's income is 18%.

In thousands of Armenian Drams	2020	2019
Profit before income tax	**4,395,608**	**3,708,142**
Theoretical tax charge at statutory rate of 18%	(791,210)	(741,629)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	103,487	55,096
- Non-deductible expenses	(277,872)	(73,555)
Under/(over) provision of current tax in prior years	(49,200)	18,885
- Effect of tax rate change		2,421
Income tax expense for the year	**(1,014,795)**	**(474,740)**

(c) Deferred taxes analysed by type of temporary difference

The tax effect of the movements in the temporary differences for the year ended 31 December 2020 are:

In thousands of Armenian Drams	1 January 2020	Charged/(credited) to profit or loss	31 December 2020
Tax effect of temporary differences			
Property, plant and equipment	(305,731)	29,329	(276,402)
Intangible assets	(1,690)	(1,152)	(2,842)
Non-current advances	-	8,465	8,465
Loans issued	(13,130)	8,519	(4,611)
Inventory	88,599	10,681	99,280
Trade and other receivables	11,634	(9,162)	2,472
Obligation Under Leases (NC)	18,091	(18,091)	-
Deposit liabilities	38,152	1,981	40,133
Trade and other payables	142,290	(204,701)	(62,411)
Net deferred tax liability	**(21,785)**	**(174,131)**	**(195,916)**

20 Income Taxes (Continued)

The tax effect of the movements in the temporary differences for the year ended 31 December 2019 are:

In thousands of Armenian Drams	1 January 2019	Charged/(credited) to profit or loss	31 December 2019
Tax effect of temporary differences			
Property, plant and equipment	(346,076)	40,345	(305,731)
Intangible assets	1,421	(3,111)	(1,690)
Non-current advances	2,763	(2,763)	-
Loans issued	(1,334)	(11,796)	(13,130)
Inventory	53,836	34,763	88,599
Trade and other receivables	(64,929)	76,563	11,634
Obligation Under Leases (NC)	-	18,091	18,091
Deposit liabilities	26,314	11,838	38,152
Trade and other payables	89,828	52,462	142,290
Net deferred tax liability	(238,177)	216,392	(21,785)

21 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

Tax legislation. The taxation system in the RA is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

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

Capital expenditure commitments. At 31 December 2020 the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling AMD 300,113 thousand (2019: AMD 355,965 thousand).

22 Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

22 Financial Risk Management (Continued)

Company's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets on the balance sheet and is as follows:

In thousands of Armenian Drams	**2020**	**2019**
Loans issued (Note 10)		
- Loans issued	5,412,841	5,678,807
Trade and other receivables (Note 12)		
- Trade receivables, net	150,891	87,652
Cash and cash equivalents (Note 13)		
- Bank balances payable on demand	1,669,101	816,212
Total maximum exposure to credit risk	**7,232,833**	**6,582,671**

The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 12.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The Company reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 12.

Credit risks concentration. The Company is not exposed to concentrations of credit risk. At 31 December 2020 the Company had nil counterparties (31 December 2019: nil counterparties) with aggregated balances of receivables above AMD 20,000 thousand. The total amount of these balances was nil (31 December 2019: nil) or 0% of the gross amount of trade and other financial receivables (31 December 2019: 0%).

The Company's cash and cash equivalents are held with two banks (31 December 2019: two banks) thus exposing the Company to a concentration of credit risk.

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.
Company's approach to incorporate ECL measurement is described in Note 10, 12, 13.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Open positions are formulated mainly in relation to payables for property, plant and equipment, raw materials and borrowings.

Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

22 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly. The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2020			At 31 December 2019		
In thousands of Armenian Drams	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
USD	4,775,867	(912,847)	3,863,020	5,042,524	(724,592)	4,317,932
EUR	652,464	(575,610)	76,854	685,898	(291,396)	394,502
RUB	97	(17,356)	(17,259)	6,288	(94,527)	(88,239)
GBP	15	-	15	13	-	13
Total	**5,428,443**	**(1,505,813)**	**3,922,630**	**5,734,723**	**(1,110,514)**	**4,624,209**

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk. The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Company, with all other variables held constant:

In thousands of Armenian Drams	31 December 2020	31 December 2019
	Impact on profit or loss	Impact on profit or loss
USD strengthening by 5% (2019: strengthening by 5%)	193,151	215,897
USD weakening by 5% (2019: weakening by 5%)	(193,151)	(215,897)
EUR strengthening by 5% (2019: strengthening by 5%)	(3,843)	19,725
EUR weakening by 5% (2019: weakening by 5%)	3,843	(19,725)
RUB strengthening by 5% (2019: strengthening by 20%)	(863)	4,412
RUB weakening by 5% (2019: weakening by 20%)	863	(4,412)
GBP strengthening by 5% (2019: strengthening by 5%)	1	3
GBP weakening by 5% (2019: weakening by 5%)	(1)	(3)

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Armenian Drams	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2020					
Loans issued	49,182	531,301	1,473,780	3,358,578	**5,412,841**
Net interest sensitivity gap at 31 December 2020	**49,182**	**531,301**	**1,473,780**	**3,358,578**	**5,412,841**
31 December 2019					
Loans issued	61,204	376,082	268,630	4,972,891	**5,678,807**
Net interest sensitivity gap at 31 December 2019	**61,204**	**376,082**	**268,630**	**4,972,891**	**5,678,807**

22 Financial Risk Management (Continued)

The Company does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Company's business. The Company monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on the reports reviewed by key management personnel:

In % p.a.	**2020**	**2019**
Loans issued	2.5 - 4	1-3

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by management by daily follow-up. The Treasury department of parent company monitors monthly rolling forecasts of the Company's cash flows.

At 31 December 2020 and 2019 the Company does not have amounts due to banks or other financial institutions. The Company's liquidity portfolio comprises cash and cash equivalents, refer to Note 13. Management estimates that the liquidity portfolio of cash at banks can be realised in cash within a day in order to meet unforeseen liquidity requirements. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The table below shows liabilities at 31 December 2020 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and future interest payments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

The maturity analysis of financial liabilities at 31 December 2020 is as follows:

In thousands of Armenian Drams	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Total**
Liabilities					
Trade payables & Accrued liabilities (Note 16)	2,886,238	86,019	-		2,952,257
Lease liabilities (Note 15)	9,567	47,835	52,812	169,247	279,461
Total future payments, including future principal and interest payments	**2,895,805**	**133,854**	**52,812**	**169,247**	**3,251,718**

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In thousands of Armenian Drams	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Total**
Liabilities					
Trade payables & Accrued liabilities (Note 16)	3,802,469	717,817	156,234		4,676,520
Lease liabilities (Note 15)	11,139	55,697	61,492	197,065	325,393
Total future payments, including future principal and interest payments	**3,813,608**	**773,514**	**217,726**	**197,065**	**5,001,913**

23 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Company managed as of 31 December 2020 was AMD 11,006,717 thousand (31 December 2019: AMD 9,064,914 thousand).

24 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The RA continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The difference between carrying value at amortised cost of the financial instruments and fair values are not material.

Receivables carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

25 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

In thousands of Armenian Drams	**31 December 2020 - AC**	**31 December 2019 - AC**
ASSETS		
Loans issued (Note 10)	5,412,841	5,678,807
Trade and other receivables (Note 12)		
- Trade receivables, net	150,891	87,652
Cash and cash equivalents (Note 13)		
- Bank balances payable on demand	1,669,101	816,212
- Cash on hand	3,780	1,208
Total financial assets	**7,236,613**	**6,583,879**

All of the Company's financial liabilities are carried at amortised cost.

26 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2020, the outstanding balances with related parties were as follows:

In thousands of Armenian Drams	Entities under common control	Other related parties
Loans issued	5,412,841	-
Trade and other payables	382,723	1,340,013

At 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of Armenian Drams	Entities under common control	Other related parties
Gross amount of other receivables	2,348	-
Loans issued	5,678,807	-
Trade and other payables	1,728,205	712,874

The income and expense items with related parties for the year ended 31 December 2020 were as follows:

In thousands of Armenian Drams	Entities under common control	Other related parties
Debt forgiveness	-	239,724
Purchases of raw materials and consumables	-	(3,157,499)
Purchases of goods for resale	(3,232,894)	-
Purchases of property, plant and equipment	-	(502,784)
Intercompany consulting fee	(400,871)	-
IT costs	(227,719)	-
Interest income	149,399	-
Other expenses	(235,288)	-

The income and expense items with related parties for the year ended 31 December 2019 were as follows:

In thousands of Armenian Drams	Entities under common control	Other related parties
Debt forgiveness	-	1,042,965
Purchases of raw materials and consumables	-	(3,319,900)
Purchases of goods for resale	(3,141,513)	-
Purchases of property, plant and equipment	-	(572,644)
Intercompany consulting fee	(425,535)	-
IT costs	(215,199)	-
Interest income	141,356	-
Other expenses	(555,761)	-

26 Balances and Transactions with Related Parties (Continued)

All related party transactions were made on an arm's length basis.

Key management compensation is presented below:

	2020		2019	
In thousands of Armenian Drams	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries and short-term bonuses	233,456	75,108	371,314	117,773
Long-term benefits:				
- Long term bonuses	19,476	19,476	78,119	78,119
Total	**252,932**	**94,584**	**449,433**	**195,892**

27 Events After Reporting Period

There were no events after the reporting period that may require adjustment of or disclosure in the Company's financial statements for the year ended 31 December 2020.