



**Grant Thornton**

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Consolidated Financial Statements and  
Independent Auditor's Report

K-Telecom Closed Joint Stock Company

December 31, 2011



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## Independent auditor's report

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To the shareholder of K-Telecom CJSC

We have audited the accompanying consolidated financial statements of K-Telecom CJSC (the “Group”), which comprise the consolidated statement of financial position as of December 31, 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of K-Telecom CJSC and its subsidiary as of December 31, 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 12, 2012

Gagik Gyulbudaghyan

Managing partner

Lilit Arabajyan, FCCA

Engagement partner



## Consolidated statement of financial position

In thousand drams	Note	As of December 31, 2011	As of December 31, 2010
<b>Assets</b>			
<i>Non-current assets</i>			
Property and equipment	4	53,709,103	56,805,419
Intangible assets	5	8,995,664	6,676,834
Unsecured borrowing to related party	6	14,671,335	13,146,098
Deferred income tax assets	7	1,331,915	339,966
Prepayments for acquisition of non-current assets		<u>1,439,079</u>	<u>1,168,299</u>
		<u>80,147,096</u>	<u>78,136,616</u>
<i>Current assets</i>			
Inventories	8	3,303,858	2,934,720
Trade and other receivables	9	12,700,287	14,959,272
Short-term borrowings to employees		602,321	556,947
Current income tax assets		680,006	-
Held-to-maturity deposits	10	7,600,838	8,984,064
Cash and bank balances	11	<u>1,802,456</u>	<u>1,335,912</u>
		<u>26,689,766</u>	<u>28,770,915</u>
Non-current assets classified as held for sale	12	<u>843,992</u>	<u>-</u>
Total assets		<u><u>107,680,854</u></u>	<u><u>106,907,531</u></u>

## Consolidated statement of financial position (continued)

In thousand drams	Note	As of December 31, 2011	As of December 31, 2010
<b>Equity and liabilities</b>			
<i>Capital and reserves</i>			
	13		
Share capital		550,000	550,000
Reserve capital		82,500	82,500
Accumulated profit		<u>72,116,565</u>	<u>59,360,485</u>
		<u>72,749,065</u>	<u>59,992,985</u>
<i>Non-current liabilities</i>			
Borrowings from related parties	14	-	26,885,218
Other non-current liabilities	15	<u>285,823</u>	<u>294,233</u>
		<u>285,823</u>	<u>27,179,451</u>
<i>Current liabilities</i>			
Borrowings from related parties	14	22,873,543	12,257,125
Deferred revenue		2,018,847	1,872,093
Trade and other payables	16	9,753,576	5,260,440
Current income tax liability		<u>-</u>	<u>345,437</u>
		<u>34,645,966</u>	<u>19,735,095</u>
<b>Total equity and liabilities</b>		<u><u>107,680,854</u></u>	<u><u>106,907,531</u></u>

The consolidated financial statements were approved on April 12, 2012 by:

Ralph Yirikian  
 General Director



Andrey Moskovskikh  
 Finance and Accounting Department  
 Manager

## Consolidated statement of comprehensive income

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Operating revenue	75,206,855	77,677,940
Operating costs	(58,877,504)	(66,030,128)
Results from operating activities	<u>16,329,351</u>	<u>11,647,812</u>
Finance income	1,917,946	1,224,955
Finance cost	(1,505,609)	(2,354,572)
Foreign exchange gain/(loss), net	<u>(1,034,129)</u>	<u>6,033,001</u>
Profit before tax	<u>15,707,559</u>	<u>16,551,196</u>
Income tax expense	<u>(2,951,479)</u>	<u>(3,687,586)</u>
Profit for the year	<u>12,756,080</u>	<u>12,863,610</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>12,756,080</u>	<u>12,863,610</u>

## Consolidated statement of changes in equity

In thousand drams	Share capital	Reserve capital	Accumulated profit	Total
as of January 1, 2010	550,000	82,500	46,496,875	47,129,375
Profit for the year	-	-	12,863,610	12,863,610
Total comprehensive income for the year	-	-	12,863,610	12,863,610
as of December 31, 2010	550,000	82,500	59,360,485	59,992,985
Profit for the year	-	-	12,756,080	12,756,080
Total comprehensive income for the year	-	-	12,756,080	12,756,080
as of December 31, 2011	550,000	82,500	72,116,565	72,749,065

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 36.

## Consolidated statement of cash flows

In thousand drams	Year ended December 31, 2011	Year ended December 31, 2010
Cash flows from operating activities		
Profit for the year	12,756,080	12,863,610
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	21,216,842	21,733,059
Loss on disposal of property and equipment	8,443	18,780
Impairment loss recognized on trade receivables	89,126	2,001,188
Impairment loss recognized in inventories	196,393	-
Interest expense	1,505,609	2,354,572
Income tax expense	2,951,479	3,687,586
Interest income	(1,917,946)	(1,224,955)
Income from grants	(71,942)	(40,223)
Non-cash services received	-	522
Foreign exchange (gain)/loss	1,034,129	(6,033,001)
<i>Operating profit before working capital changes</i>	<u>37,768,213</u>	<u>35,361,138</u>
Change in trade and other receivables	2,272,524	(3,181,477)
Change in inventories	(540,699)	(1,036,986)
Change in borrowings provided to employees	(45,374)	(45,566)
Change in non-current liabilities (roaming deposit)	(7,353)	11,257
Change in trade and other payables	(1,521,968)	263,853
Change in deferred revenue	146,754	(181,097)
<i>Cash generated from operations</i>	<u>38,072,097</u>	<u>31,191,122</u>
Interest paid	(6,445,156)	(452,142)
Income tax paid	(4,968,871)	-
<i>Net cash from operating activities</i>	<u>26,658,070</u>	<u>30,738,980</u>



## Consolidated statement of cash flows (continued)

In thousand drams	Note	Year ended December 31, 2011	Year ended December 31, 2010
<b>Cash flows from investing activities</b>			
Prepayments made for acquisition of non-current assets		(270,780)	-
Acquisition of property and equipment and intangible assets		(15,721,474)	(8,035,333)
Proceeds from disposal of property and equipment		137,943	84,717
Proceeds from/(deposits made) in short-term investments		409,550	(7,741,954)
Interest income received		1,225,682	532,393
<i>Net cash used in investing activities</i>		<u>(14,219,079)</u>	<u>(15,160,177)</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(13,269,766)	(24,789,420)
<i>Net cash used in financing activities</i>		<u>(13,269,766)</u>	<u>(24,789,420)</u>
Net decrease in cash and cash equivalents		(830,775)	(9,210,617)
Foreign exchange effect on cash		(106,441)	177,708
Cash and cash equivalents at the beginning of the year		2,789,672	11,822,581
Cash and cash equivalents at the end of the year	27	<u>1,852,456</u>	<u>2,789,672</u>

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 36.