

Independent auditor's report

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To the shareholders of MTS Armenia CJSC

Opinion

We have audited the consolidated financial statements of MTS Armenia CJSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2019, 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.

Emphasis of Matter

We draw your attention to note 24 to the financial statements, which describes the effect of a new disease COVID-19. Our opinion is not modified in respect of this matter.

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 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

27 May 2020



Elina Arabajyan, FCCA
Engagement Partner

Consolidated statement of financial position

In thousand drams

	Note	As of 31 December 2019	As of 31 December 2018 (restated)
Assets			
<i>Non-current assets</i>			
Property and equipment	4	32,491,714	33,404,594
Right-of-use assets	5	6,128,209	6,934,139
Intangible assets	6	9,503,276	6,550,477
Borrowings provided	7	17,770,811	638,689
Deferred income tax assets	8	3,006,695	2,883,315
Trade and other receivables	9	650,230	1,109,290
Bank deposits	10	959,400	967,500
		<u>70,510,335</u>	<u>52,488,004</u>
<i>Current assets</i>			
Inventories	11	2,204,133	1,932,776
Trade and other receivables	9	4,885,991	9,528,488
Borrowings provided	7	-	3,450
Short-term loans to employees		306,100	289,332
Bank deposits	10	11,977,005	8,230,693
Cash and bank balances	12	4,052,127	27,319,950
		<u>23,425,356</u>	<u>47,304,689</u>
Total assets		<u><u>93,935,691</u></u>	<u><u>99,792,693</u></u>

Consolidated statement of financial position (continued)

In thousand drams		As of 31 December 2019	As of 31 December 2018 (restated)
	Note		
Equity and liabilities			
<i>Capital and reserves</i>	13		
Share capital		550,000	550,000
Reserve capital		82,500	82,500
Accumulated profit		77,340,445	81,919,825
		<u>77,972,945</u>	<u>82,552,325</u>
<i>Non-current liabilities</i>			
Lease obligations	14	5,509,992	5,983,578
Contract liabilities	15	90,275	106,435
Trade and other payables	16	-	890,100
		<u>5,600,267</u>	<u>6,980,113</u>
<i>Current liabilities</i>			
Lease obligations	14	1,429,386	1,301,990
Contract liabilities	15	1,362,194	1,440,582
Trade and other payables	16	7,406,857	7,517,683
Income tax payable		164,042	-
		<u>10,362,479</u>	<u>10,260,255</u>
Total equity and liabilities		<u>93,935,691</u>	<u>99,792,693</u>

The consolidated financial statements were approved on 27 May 2020 by:

Ralph Yirikyan
General Director

Artur Yermalionak
Finance and Accounting Department Manager



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 10 to 39.

Consolidated statement of profit or loss and other comprehensive income

In thousand drams

	Note	Year ended 31 December 2019	Year ended 31 December 2018 (restated)
<i>Contract revenue</i>			
Mobile services	17	49,058,686	51,032,925
Fixed line services		1,381,835	1,538,015
Revenue from sale of goods		5,949,825	5,198,269
Other revenue		274,711	128,039
<i>Other income</i>			
Other operating income		470,200	608,202
		<u>57,135,257</u>	<u>58,505,450</u>
Depreciation and amortization		(12,992,182)	(14,235,819)
Interconnection and roaming costs	18	(6,042,028)	(7,043,368)
Payroll and employee benefits		(8,896,599)	(7,440,460)
Other network operating costs	19	(5,434,643)	(5,197,696)
Management and consulting fees		(328,515)	(2,545,351)
Cost of sold goods		(5,305,033)	(4,723,293)
Other operating expenses	20	(4,426,859)	(6,269,682)
		<u>(43,425,859)</u>	<u>(47,455,669)</u>
Results from operating activities		<u>13,709,398</u>	<u>11,049,781</u>
Finance income	21	1,240,057	794,330
Finance cost		(969,460)	(854,952)
Gain/(loss) from exchange rate differences, net	22	(374,732)	81,623
Profit before income tax		<u>13,605,263</u>	<u>11,070,782</u>
Income tax expense	23	(3,184,643)	(1,237,042)
Profit for the year		<u>10,420,620</u>	<u>9,833,740</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>10,420,620</u>	<u>9,833,740</u>

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 10 to 39.

Consolidated statement of changes in equity

In thousand drams	Share capital	Reserve capital	Accumulated profit	Total
as of 1 January 2018	550,000	82,500	81,709,284	82,341,784
Profit for the year (restated)	-	-	9,833,740	9,833,740
Total comprehensive income for the year (restated)	-	-	9,833,740	9,833,740
Dividends	-	-	(4,500,000)	(4,500,000)
Transactions with owners	-	-	(4,500,000)	(4,500,000)
as of 31 December 2018 (restated)	550,000	82,500	81,919,825	82,552,325
Profit for the year	-	-	10,420,620	10,420,620
Total comprehensive income for the year	-	-	10,420,620	10,420,620
Dividends	-	-	(15,000,000)	(15,000,000)
Transactions with owners	-	-	(15,000,000)	(15,000,000)
as of 31 December 2019	550,000	82,500	77,340,445	77,972,945

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 10 to 39.

Consolidated statement of cash flows

In thousand drams	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities		
Profit for the year	10,420,620	9,833,740
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	12,993,804	14,250,757
Loss on disposal of property, equipment and intangible assets	219,080	357,263
Income tax expense	3,184,643	1,237,042
Finance income	(1,240,057)	(794,330)
Finance cost	969,460	854,952
Income from grants	-	(138,767)
Foreign exchange (gain)/loss	374,732	(81,623)
<i>Operating profit before working capital changes</i>	<u>26,922,282</u>	<u>25,519,034</u>
Change in trade and other receivables	3,151,695	5,594,946
Change in inventories	(271,357)	141,605
Change in borrowings provided to employees	(16,768)	(29,096)
Change in contract liabilities	(94,548)	(231,629)
Change in trade and other payables	(1,089,544)	1,401,614
<i>Cash generated from operations</i>	<u>28,601,760</u>	<u>32,396,474</u>
Interest paid	(969,460)	(854,952)
Income tax paid	(2,206,900)	(1,525,142)
<i>Net cash from operating activities</i>	<u>25,425,400</u>	<u>30,016,380</u>
Cash flows from investing activities		
Acquisition of property, equipment and intangible assets	(12,370,106)	(13,381,947)
Proceeds from disposal of property and equipment	26,893	69,786
Borrowings provided to related parties	(16,700,601)	-
Repayment of borrowings provided	3,450	10,126,645
Interest income received	873,482	7,657,213
Deposits made	(11,230,000)	(11,118,655)
Deposits repaid	7,366,540	6,828,830
<i>Net cash generated from/(used in) investing activities</i>	<u>(32,030,342)</u>	<u>181,872</u>
Cash flows from financing activities		
Lease obligation paid	(1,288,320)	(1,541,485)
Dividends paid	(15,000,000)	(4,500,000)
<i>Net cash used in financing activities</i>	<u>(16,288,320)</u>	<u>(6,041,485)</u>
Net increase/(decrease) in cash and bank balances	(22,893,262)	24,156,767
Foreign exchange effect on cash	(374,561)	48,380
Cash and bank balances at the beginning of the year	27,319,950	3,114,803
Cash and bank balances at the end of the year	<u>4,052,127</u>	<u>27,319,950</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 10 to 39.