

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 subsidiary (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2017, 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 2017, 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 Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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.

Gagik Gyulbudaghyan

Managing Partner

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Lilit Arabajyan, FCCA

Engagement Partner

29 May 2018

Consolidated statement of financial position

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016
Assets			
Non-current assets			
Property and equipment	4	33,591,391	37,208,285
Intangible assets	5	4,838,666	5,215,205
Unsecured borrowings	6	17,594,904	17,180,510
Deferred income tax assets	7	831,134	583,821
Trade and other receivables	9	407,265	1,297,133
		57,263,360	61,484,954
Current assets			-
Inventories	8	2,074,381	1,740,159
Trade and other receivables	9	16,581,386	22,570,125
Unsecured borrowings	6	8,280	8,280
Short-term loans to employees		260,236	65,176
Current income tax assets		1,378,537	3,399,365
Term deposits	10	4,923,812	513,993
Cash and bank balances	11	3,114,803	3,186,930
		28,341,435	31,484,028
Total assets		85,604,795	92,968,982

Consolidated statement of financial position (continued)

As of 31 December 2017	Note	In thousand drams
	· · · · · · · · · · · · · · · · · · ·	Equity and liabilities
	12	Capital and reserves
550,000		Share capital
82,500		Reserve capital
76,796,626		Accumulated profit
77,429,126		
		Non-current liabilities
108,053		Roaming deposits
585,003	13	Grants related to assets
693,056		
		Current liabilities
1,361,813		Deferred revenue
6,120,800	14	Trade and other payables
7,482,613		
85,604,795		Total equity and liabilities
	550,000 82,500 76,796,626 77,429,126 108,053 585,003 693,056 1,361,813 6,120,800 7,482,613	Note December 2017 12 550,000 82,500 76,796,626 77,429,126 108,053 13 585,003 693,056 1,361,813 14 6,120,800 7,482,613

The consolidated financial statements were approved on 29 May 2018 by:

Ralph Yirikyan

General Director

Rinat Yussupaliev

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 35.

Consolidated statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2017	Year ended 31 December 2016
Mobile services	15	36,052,976	38,508,145
Interconnection services		11,933,776	12,037,896
Roaming services		2,752,122	3,502,675
Other value added services		814,111	374,915
Other network services		1,530,773	1,021,417
Revenue from sale of goods		3,677,280	3,371,923
Other operating income	16	788,337	661,035
		57,549,375	59,478,006
Depreciation and amortization		(12,044,640)	(14,104,576)
Interconnection and roaming costs	17	(7,504,384)	(8,430,740)
Payroll and employee benefits		(6,807,088)	(8,267,031)
Other network operating costs	18	(7,018,323)	(6,402,088)
Dealers' commissions		(574,249)	(1,219,713)
Management and consulting fees		(2,631,701)	(2,615,574)
Cost of sold goods		(3,257,118)	(2,926,501)
Other operating expenses	19	(5,682,554)	(6,580,146)
		(45,520,057)	(50,546,369)
Results from operating activities		12,029,318	8,931,637
Finance income	20	633,353	765,255
Loss from exchange rate differences, net	21	(72,950)	(215,740)
Profit before income tax		12,589,721	9,481,152
Income tax expense	22	(2,793,104)	(3,337,123)
Profit for the year		9,796,617	6,144,029
Other comprehensive income			= = = = = = = = = = = = = = = = = = = =
Total comprehensive income for the year		9,796,617	6,144,029

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 35.

Consolidated statement of changes in equity

	Reserve	Accumulated	
Share capital	capital	profit	Total
550,000	82,500	97,689,313	98,321,813
-	-	6,144,029	6,144,029
		6,144,029	6,144,029
	21	(20,333,333)	(20,333,333)
	-	(20,333,333)	(20,333,333)
550,000	82,500	83,500,009	84,132,509
-	ш.	9,796,617	9,796,617
		9,796,617	9,796,617
-	-	(16,500,000)	(16,500,000)
		(16,500,000)	(16,500,000)
550,000	82,500	76,796,626	77,429,126
	550,000	Share capital capital 550,000 82,500 - - - - 550,000 82,500	Share capital capital profit 550,000 82,500 97,689,313 - - 6,144,029 - - (20,333,333) - (20,333,333) - (20,333,333) 550,000 82,500 83,500,009 - - 9,796,617 - - 9,796,617 - - (16,500,000) - - (16,500,000)

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 35.

Consolidated statement of cash flows

housand drams Year ended 31 December 2017		Year ended 31 December 2016	
Cash flows from operating activities	8 1		
Profit for the year	9,796,617	6,144,029	
Adjustments for:			
Depreciation, amortization and impairment	12,091,215	14,104,576	
Loss on disposal of property and equipment	319,181	348,279	
Income tax expense	2,793,104	3,337,123	
Finance income	(633,353)	(765,255)	
Income from grants	(74,649)	(48,906)	
Foreign exchange loss	72,950	215,740	
Operating profit before working capital changes	24,365,065	23,335,586	
Change in trade and other receivables	6,399,992	4,476,437	
Change in inventories	(334,222)	109,171	
Change in borrowings provided to employees	(195,060)	203,970	
Change in roaming deposits	1,430	(4,555)	
Change in trade and other payables	(749,689)	(379,922)	
Change in deferred revenue	(250,561)	(31,890)	
Cash generated from operations	29,236,955	27,708,797	
Income tax paid	(1,019,300)	(2,729,223)	
Net cash from operating activities	28,217,655	24,979,574	
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets	(7,785,727)	(8,089,545)	
Proceeds from disposal of property and equipment	228,110	30,054	
Repayment of borrowings provided	8,276	106,587	
Deposits (made)/repaid	(4,463,266)	968,835	
Interest income received	217,712	310,540	
Net cash used in investing activities	(11,794,895)	(6,673,529)	
Cash flows from financing activities			
Dividends paid	(16,500,000)	(20,333,333)	
Net cash used in financing activities	(16,500,000)	(20,333,333)	
Net decrease in cash and bank balances	(77,240)	(2,027,288)	
Foreign exchange effect on cash	5,113	(58,583)	
Cash and bank balances at the beginning of the year	3,186,930	5,272,801	
Cash and bank balances at the end of the year	3,114,803	3,186,930	
3.2.2.3.3.3.3.3.3.3.3.3.3.3.3.3.3.3.3.3	5,114,005	5,100,930	

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 35.