

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

Consolidated statement of financial position

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016
Assets			
<i>Non-current assets</i>			
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
		<u>57,263,360</u>	<u>61,484,954</u>
<i>Current assets</i>			
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
		<u>28,341,435</u>	<u>31,484,028</u>
Total assets		<u><u>85,604,795</u></u>	<u><u>92,968,982</u></u>

Consolidated statement of financial position (continued)

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016
Equity and liabilities			
<i>Capital and reserves</i>	12		
Share capital		550,000	550,000
Reserve capital		82,500	82,500
Accumulated profit		76,796,626	83,500,009
		<u>77,429,126</u>	<u>84,132,509</u>
<i>Non-current liabilities</i>			
Roaming deposits		108,053	106,623
Grants related to assets	13	585,003	359,126
		<u>693,056</u>	<u>465,749</u>
<i>Current liabilities</i>			
Deferred revenue		1,361,813	1,612,374
Trade and other payables	14	6,120,800	6,758,350
		<u>7,482,613</u>	<u>8,370,724</u>
Total equity and liabilities		<u>85,604,795</u>	<u>92,968,982</u>

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

Ralph Yirikyan
General Director



Rinat Yussupaliyev
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
		<u>57,549,375</u>	<u>59,478,006</u>
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)
		<u>(45,520,057)</u>	<u>(50,546,369)</u>
Results from operating activities		<u>12,029,318</u>	<u>8,931,637</u>
Finance income	20	633,353	765,255
Loss from exchange rate differences, net	21	(72,950)	(215,740)
Profit before income tax		<u>12,589,721</u>	<u>9,481,152</u>
Income tax expense	22	(2,793,104)	(3,337,123)
Profit for the year		<u>9,796,617</u>	<u>6,144,029</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>9,796,617</u>	<u>6,144,029</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 35.

Consolidated statement of changes in equity

In thousand drams	Share capital	Reserve capital	Accumulated profit	Total
as of 1 January 2016	550,000	82,500	97,689,313	98,321,813
Profit for the year	-	-	6,144,029	6,144,029
Total comprehensive income for the year	-	-	6,144,029	6,144,029
Dividends	-	-	(20,333,333)	(20,333,333)
Transactions with owners	-	-	(20,333,333)	(20,333,333)
as of 31 December 2016	550,000	82,500	83,500,009	84,132,509
Profit for the year	-	-	9,796,617	9,796,617
Total comprehensive income for the year	-	-	9,796,617	9,796,617
Dividends	-	-	(16,500,000)	(16,500,000)
Transactions with owners	-	-	(16,500,000)	(16,500,000)
as of 31 December 2017	550,000	82,500	76,796,626	77,429,126

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

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit for the year	9,796,617	6,144,029
<i>Adjustments for:</i>		
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
<i>Operating profit before working capital changes</i>	<u>24,365,065</u>	<u>23,335,586</u>
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)
<i>Cash generated from operations</i>	<u>29,236,955</u>	<u>27,708,797</u>
Income tax paid	(1,019,300)	(2,729,223)
<i>Net cash from operating activities</i>	<u>28,217,655</u>	<u>24,979,574</u>
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
<i>Net cash used in investing activities</i>	<u>(11,794,895)</u>	<u>(6,673,529)</u>
Cash flows from financing activities		
Dividends paid	(16,500,000)	(20,333,333)
<i>Net cash used in financing activities</i>	<u>(16,500,000)</u>	<u>(20,333,333)</u>
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	<u>3,114,803</u>	<u>3,186,930</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 35.