



Grant Thornton

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 and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as of December 31, 2016, 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 December 31, 2016, 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.

Other Matter

Financial statements of MTS Armenia CJSC for the year ended December 31, 2015 were audited by another auditor, who expressed an unqualified opinion on those financial statements on May 2, 2016.

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.

Heed
Gagik Grahbudechyan

Gagik Gyulbudaghyan

Managing Partner

May 26, 2017

Shur,

Lilit Arabajyan, FCCA

Engagement Partner



Consolidated statement of financial position

| In thousand drams | Note | As of December 31, 2016 | As of December 31, 2015 |
|-------------------------------|------|----------------------------|----------------------------|
| Assets | | | |
| <i>Non-current assets</i> | | | |
| Property and equipment | 4 | 37,208,285 | 42,559,471 |
| Intangible assets | 5 | 5,215,205 | 5,910,135 |
| Unsecured borrowings | 6 | 17,180,510 | 16,163,512 |
| Deferred income tax assets | 7 | 583,821 | 1,161,864 |
| Trade and other receivables | 9 | 1,297,133 | 610,463 |
| | | <u>61,484,954</u> | <u>66,405,445</u> |
| <i>Current assets</i> | | | |
| Inventories | 8 | 1,740,159 | 1,849,330 |
| Trade and other receivables | 9 | 22,570,125 | 27,755,490 |
| Unsecured borrowings | 6 | 8,280 | 672,813 |
| Short-term loans to employees | | 65,176 | 269,146 |
| Current income tax assets | | 3,399,365 | 3,429,222 |
| Held-to-maturity deposits | 10 | 513,993 | 1,656,174 |
| Cash and bank balances | 11 | 3,186,930 | 5,272,801 |
| | | <u>31,484,028</u> | <u>40,904,976</u> |
| Total assets | | <u><u>92,968,982</u></u> | <u><u>107,310,421</u></u> |

Consolidated statement of financial position (continued)

| In thousand drams | Note | As of December 31, 2016 | As of December 31, 2015 |
|--------------------------------|------|----------------------------|----------------------------|
| Equity and liabilities | | | |
| <i>Capital and reserves</i> | 12 | | |
| Share capital | | 550,000 | 550,000 |
| Reserve capital | | 82,500 | 82,500 |
| Accumulated profit | | 83,500,009 | 97,689,313 |
| | | 84,132,509 | 98,321,813 |
| <i>Non-current liabilities</i> | | | |
| Roaming deposits | | 106,623 | 111,178 |
| Grants related to assets | 13 | 359,126 | 318,675 |
| | | 465,749 | 429,853 |
| <i>Current liabilities</i> | | | |
| Deferred revenue | | 1,612,374 | 1,644,264 |
| Trade and other payables | 14 | 6,758,350 | 6,914,491 |
| | | 8,370,724 | 8,558,755 |
| Total equity and liabilities | | 92,968,982 | 107,310,421 |

The consolidated financial statements were approved on May 26, 2017 by:

Ralph Yirikian
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 39.

Consolidated statement of profit or loss and other comprehensive income

| In thousand drams | | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|------|------------------------------------|------------------------------------|
| | Note | | |
| <i>Operating revenue</i> | | | |
| Mobile services | 15 | 38,508,145 | 43,731,025 |
| Interconnection services | | 12,037,896 | 19,076,863 |
| Roaming services | | 3,502,675 | 5,010,194 |
| Other value added services | | 374,915 | 228,879 |
| Other network services | | 1,021,417 | 903,366 |
| Revenue from sales of goods | | 3,371,923 | 2,026,772 |
| Other operating income | 16 | 661,035 | 812,149 |
| | | <u>59,478,006</u> | <u>71,789,248</u> |
| <i>Operating costs</i> | | | |
| Depreciation and amortization | | (14,104,576) | (13,168,693) |
| Interconnection and roaming costs | 17 | (8,430,740) | (11,069,934) |
| Payroll and employee benefits | | (8,267,031) | (8,943,473) |
| Other network operating costs | 18 | (6,402,088) | (6,122,160) |
| Dealers' commissions | | (1,219,713) | (1,594,477) |
| Management and consulting fees | | (2,615,574) | (2,047,468) |
| Cost of sold goods | | (2,926,501) | (1,807,754) |
| Other operating expenses | 19 | (6,580,146) | (7,578,177) |
| | | <u>(50,546,369)</u> | <u>(52,332,136)</u> |
| Results from operating activities | | <u>8,931,637</u> | <u>19,457,112</u> |
| Finance income | 20 | 765,255 | 966,713 |
| Finance cost | 20 | - | (6,385) |
| Gain/(loss) from exchange rate differences, net | 21 | (215,740) | 233,439 |
| Profit before tax | | <u>9,481,152</u> | <u>20,650,879</u> |
| Income tax expense | 22 | (3,337,123) | (4,524,808) |
| Profit for the year | | <u>6,144,029</u> | <u>16,126,071</u> |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | <u>6,144,029</u> | <u>16,126,071</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.