

UCom LLC

**Consolidated Financial Statements
for 2016**

Contents

| | |
|---|----|
| Independent Auditors' Report | 3 |
| Consolidated Statement of Financial Position | 6 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 7 |
| Consolidated Statement of Changes in Equity | 8 |
| Consolidated Statement of Cash Flows | 9 |
| Notes to the Consolidated Financial Statements | 10 |



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Independent Auditors' Report

To the management of UCom LLC

Opinion

We have audited the consolidated financial statements of UCom LLC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' 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* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 IFRS, 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.



Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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.



UCom LLC
Independent Auditors' Report
Page 3

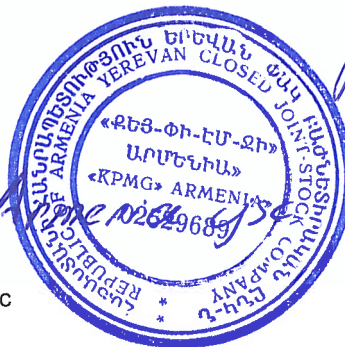
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is Irina Gevorgyan.


Tigran Gasparyan
Director


Irina Gevorgyan
Audit Director

KPMG Armenia cjsc
19 July 2017



| '000 AMD | Note | 31 December 2016 | 31 December 2015 |
|---|-----------|--------------------|-------------------|
| | | | Restated |
| Assets | | | |
| Property and equipment | 10 | 43,579,294 | 29,561,618 |
| Intangible assets and goodwill | 11 | 42,989,650 | 36,819,633 |
| Prepaid income tax | | 404,418 | 729,112 |
| Prepayments and other assets | | 765,330 | 489,370 |
| VAT receivable | | 2,435,095 | - |
| Deferred tax assets | 9 | - | 653,518 |
| Non-current assets | | 90,173,787 | 68,253,251 |
| | | | |
| Inventories | 12 | 948,036 | 928,255 |
| Trade receivables | 19(c)(ii) | 7,183,104 | 4,803,893 |
| VAT receivables | | 2,931,272 | 5,512,856 |
| Prepayments and other assets | | 1,018,204 | 1,321,761 |
| Cash and cash equivalents | 13 | 4,438,934 | 1,285,954 |
| Current assets | | 16,519,550 | 13,852,719 |
| Total assets | | 106,693,337 | 82,105,970 |
| | | | |
| Equity | 14 | | |
| Charter capital | | 16,959 | 16,959 |
| Accumulated losses | | (9,029,475) | (4,442,862) |
| Additional paid-in capital | | 17,226,885 | 7,143,157 |
| Total equity | | 8,214,369 | 2,717,254 |
| | | | |
| Non-current liabilities | | | |
| Loans and borrowings | 16 | 58,016,768 | 53,919,920 |
| Deferred tax liabilities | 9 | - | 653,518 |
| Provisions | 17 | 1,715,147 | 1,137,959 |
| VAT payable | | 2,435,095 | - |
| Trade and other payables | 18 | 14,770,235 | 7,726,387 |
| Non-current liabilities | | 76,937,245 | 63,437,784 |
| | | | |
| Current liabilities | | | |
| Loans and borrowings | 16 | 3,444,918 | 5,227,850 |
| Trade and other payables | 18 | 15,843,519 | 8,982,632 |
| Deferred revenue and prepayments received | | 2,253,286 | 1,740,450 |
| Current liabilities | | 21,541,723 | 15,950,932 |
| Total liabilities | | 98,478,968 | 79,388,716 |
| Total equity and liabilities | | 106,693,337 | 82,105,970 |

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 47.

| '000 AMD | Note | 2016 | 2015 |
|---|------|--------------------|--------------------|
| | | | Restated |
| Revenue | 5 | 34,999,236 | 20,385,787 |
| Other income | | 1,461,981 | 921,326 |
| Depreciation and amortization expense | | (11,486,541) | (5,194,725) |
| Personnel expenses | 6 | (5,552,673) | (3,672,910) |
| Other expenses | 7 | (19,644,134) | (12,284,192) |
| Results from operating activities | | (222,131) | 155,286 |
| Finance income | 8 | 291,797 | 154,271 |
| Finance costs | 8 | (7,113,969) | (3,610,633) |
| Net finance costs | | (6,822,172) | (3,456,362) |
| Loss before income tax | | (7,044,303) | (3,301,076) |
| Income tax benefit | 9 | 2,457,690 | 766,232 |
| Loss and total comprehensive loss for the year | | (4,586,613) | (2,534,844) |

These consolidated financial statements were approved by management on 19 July 2017 and were signed on its behalf by:


 Hayk Yesayan
 Director




 Karen Mnatsakanyan
 Chief Financial Officer

| | Attributable to equity holders of the Company | | | |
|--|---|----------------------------|--------------------|------------------|
| | Charter capital | Additional paid-in capital | Accumulated losses | Total equity |
| '000 AMD | | | | |
| Balance at 1 January 2015 | 15,050 | 6,519,894 | (1,906,109) | 4,628,835 |
| Total comprehensive loss | | | | |
| Loss and total comprehensive loss for the year (restated) | - | - | (2,534,844) | (2,534,844) |
| Transactions with owners of the Company | | | | |
| Initial discount on low interest loans and borrowings received from shareholder net of deferred tax of AMD 155,816 thousand (note 9) | - | 623,263 | - | 623,263 |
| Change in charter capital | 1,909 | - | (1,909) | - |
| Balance at 31 December 2015 (restated) | 16,959 | 7,143,157 | (4,442,862) | 2,717,254 |
| Balance at 1 January 2016 | 16,959 | 7,143,157 | (4,442,862) | 2,717,254 |
| Total comprehensive loss | | | | |
| Loss and total comprehensive loss for the year | - | - | (4,586,613) | (4,586,613) |
| Transactions with owners of the Company | | | | |
| Forgiveness of borrowing received from related party net of tax of AMD 1,838,361 thousand | - | 7,353,443 | - | 7,353,443 |
| Initial discount on low interest loans and borrowings received from shareholder net of deferred tax of AMD 682,571 thousand (note 9) | - | 2,730,285 | - | 2,730,285 |
| Balance at 31 December 2016 | 16,959 | 17,226,885 | (9,029,475) | 8,214,369 |

| '000 AMD | 2016 | 2015 |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Cash received from customers, inclusive of VAT | 40,212,839 | 25,380,740 |
| Cash paid to suppliers, inclusive of VAT | (19,833,901) | (15,271,332) |
| Cash paid to employees, inclusive of taxes | (5,621,259) | (3,904,089) |
| Payment for income tax | (62,000) | (266,829) |
| VAT refund | - | 929,200 |
| Payments of taxes other than on income | (1,280,985) | (1,436,564) |
| Interest paid | (3,983,798) | (1,940,581) |
| Net cash from operating activities | 9,430,896 | 3,490,545 |
| Cash flows from investing activities | | |
| Acquisition of subsidiary, net of cash acquired | - | (24,106,792) |
| Borrowings given | (67,180) | (13,240) |
| Repayments of borrowings given | 73,107 | 80,207 |
| Interest received | 6,708 | 11,726 |
| Acquisition of property and equipment | (12,029,349) | (8,404,158) |
| Proceeds from sales of property, plant and equipment | 918,538 | - |
| Acquisition of intangible assets | (5,278,025) | (3,704,934) |
| Net cash used in investing activities | (16,376,201) | (36,137,191) |
| Cash flows from financing activities | | |
| Proceeds from loans and borrowings | 16,934,857 | 57,923,163 |
| Repayments of loans and borrowings | (6,844,738) | (24,234,856) |
| Net cash from financing activities | 10,090,119 | 33,688,307 |
| Net increase in cash and cash equivalents | 3,144,814 | 1,041,661 |
| Cash and cash equivalents at 1 January | 1,285,954 | 214,741 |
| Effect of exchange rate fluctuations on cash and cash equivalents | 8,166 | 29,552 |
| Cash and cash equivalents at 31 December (note 13) | 4,438,934 | 1,285,954 |

During the year ended 31 December 2016 the Group purchased property and equipment of AMD 3,240,444 thousand which were financed through letters of credit from banks. The acquisition of the intangible asset in relation to capacity IRU (see note 11) had delayed payment terms.