

GNC-ALFA CJSC

**Financial Statements
for the year ended 31 December 2016**

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Independent Auditors' Report

The Board of Directors
GNC-ALFA CJSC

Opinion

We have audited the financial statements of GNC-ALFA CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2016, the 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its 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 Financial Statements* section of our report. We are independent of the Company 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 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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:


Tigran Gasparyan
Managing Partner, Director of KPMG Armenia cjsc

KPMG Armenia cjsc
15 May 2017

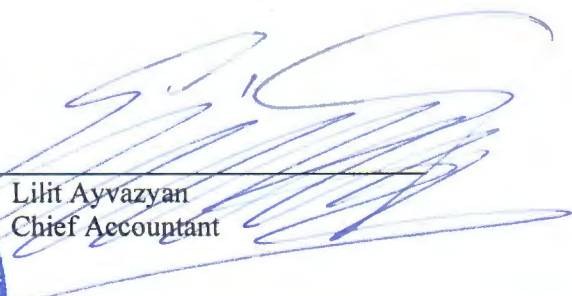


'000 AMD	Note	2016	2015
Assets			
Property, plant and equipment	10	11,426,223	12,103,772
Intangible assets	11	781,434	815,706
Deferred tax assets	12	587,837	383,110
Prepayments for non-current assets		37,814	74,870
Total non-current assets		12,833,308	13,377,458
Inventories		76,518	104,786
Trade and other receivables	13	1,154,808	1,592,081
Current tax assets		7,000	7,000
Cash and cash equivalents	14	30,964	87,420
Total current assets		1,269,290	1,791,287
Total assets		14,102,598	15,168,745
Equity			
Share capital		1,000,000	1,000,000
Accumulated losses		(6,358,336)	(5,069,764)
Total equity	15	(5,358,336)	(4,069,764)
Liabilities			
Deferred revenue and prepayments received, non-current portion	17	1,409,017	1,743,812
Total non-current liabilities		1,409,017	1,743,812
Bank overdrafts	14	79,877	170,043
Deferred revenue and prepayments received, current portion	17	360,491	376,091
Loans and borrowings	18	16,561,302	15,773,864
Trade and other payables	19	1,050,247	1,174,699
Total current liabilities		18,051,917	17,494,697
Total liabilities		19,460,934	19,238,509
Total equity and liabilities		14,102,598	15,168,745

'000 AMD	Note	2016	2015
Revenue	5	5,685,900	4,926,432
Purchased internet traffic		(661,079)	(885,465)
Lease of network infrastructure		(1,119,423)	(786,487)
Interconnection charges		(36,906)	(27,411)
Cost of goods sold and services provided		(27,623)	(46,864)
Wages and other employee benefits		(734,633)	(674,885)
Depreciation and amortization		(2,159,322)	(2,081,370)
Repairs and maintenance		(152,717)	(237,243)
Other operating expenses	6	(864,196)	(972,779)
Other expenses	7	(260,505)	-
Other operating income		15,600	25,939
Results from operating activities		(314,904)	(760,133)
Finance income	8	62	137
Finance costs	8	(1,178,457)	(1,355,040)
Net finance costs		(1,178,395)	(1,354,903)
Loss before income tax		(1,493,299)	(2,115,036)
Income tax benefit	9	204,727	62,957
Total comprehensive loss for the year		(1,288,572)	(2,052,079)

These financial statements were approved by management on 15 May 2017 and were signed on its behalf by:


Hayk Faramazyan
General Director


Lilit Ayvazyan
Chief Accountant



GNC-ALFA CJSC
Statement of Changes in Equity for the year ended 31 December 2016

'000 AMD	Share capital	Accumulated losses	Total
Balance at 1 January 2015	1,000,000	(3,017,685)	(2,017,685)
Total comprehensive loss for the year			
Loss for the year	-	(2,052,079)	(2,052,079)
Total comprehensive loss for the year	-	(2,052,079)	(2,052,079)
Balance at 31 December 2015	1,000,000	(5,069,764)	(4,069,764)
Balance at 1 January 2016	1,000,000	(5,069,764)	(4,069,764)
Total comprehensive loss for the year			
Loss for the year	-	(1,288,572)	(1,288,572)
Total comprehensive loss for the year	-	(1,288,572)	(1,288,572)
Balance at 31 December 2016	1,000,000	(6,358,336)	(5,358,336)

‘000 AMD	2016	2015
Cash flow from operating activities		
Cash receipts from customers	6,117,745	5,395,305
Cash paid to suppliers and employees	(3,745,823)	(4,201,741)
Payments for taxes other than on income	(398,751)	(372,841)
Cash generated from operating activities	1,973,171	820,723
Interest paid	(972,484)	(967,372)
Net cash flows from/(used in) operating activities	1,000,687	(146,649)
Cash flows from investing activities		
Interest received	62	137
Proceeds from sale of property, plant and equipment	2,478	7,488
Acquisition of property, plant and equipment	(1,513,366)	(2,572,330)
Acquisition of intangible assets	(248,701)	(148,681)
Net cash flows used in investing activities	(1,759,527)	(2,713,386)
Cash flows from financing activities		
Proceeds from borrowings	4,181,948	4,415,660
Repayment of borrowings	(3,350,747)	(1,421,740)
Net cash flows from financing activities	831,201	2,993,920
Net increase in cash and cash equivalents	72,361	133,885
Effect of exchange rate fluctuations on cash and cash equivalents	(3,035)	4,850
Impairment loss on cash and cash equivalents	(35,616)	-
Cash and cash equivalents as of 1 January	(82,623)	(221,358)
Cash and cash equivalents as of 31 December (note 14)	(48,913)	(82,623)