

## Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ  
ՀՀ, ք. Երևան 0012  
Վաղարշյան 8/1

Թ +374 10 260 964  
Ֆ +374 10 260 961

Grant Thornton CJSC  
8/1 Vagharshyan Str.  
0012 Yerevan, Armenia  
T +374 10 260 964  
F +374 10 260 961  
[www.gta.am](http://www.gta.am)

To the shareholder of K-Telecom CJSC

We have audited the accompanying financial statements of K-Telecom CJSC (the “Company”), which comprise the statement of financial position as of December 31, 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of matter*

Without qualifying our opinion we draw attention to notes 13 and 20.1, which state the Company received borrowings from its related parties. According to contractual terms these borrowings are repayable in 2012 and 2013; however the Company management intends to repay borrowings in advance of their maturity, and classified the borrowings in the financial statements accordingly. Had the management of the Company changed its intentions as to the repayment date of those borrowings and decided to repay the borrowings on due dates, the carrying amounts and classification of the borrowings would have been significantly different.

April 18, 2011



Gagik Gyulbudaghyan

Managing Partner



Lilit Arabajyan, CCA

Engagement Partner



## Statement of financial position

In thousand drams		As of December 31,	As of December 31,
	Note	2010	2009
<b>Assets</b>			
<i>Non-current assets</i>			
Property and equipment	4	56,805,419	70,933,375
Intangible assets	5	6,676,834	2,638,970
Unsecured borrowing to related party	6	13,146,098	12,965,898
Deferred income tax assets	7	339,966	340,330
Prepayments for acquisition of non-current assets		1,168,299	4,263,509
		<u>78,136,616</u>	<u>91,142,082</u>
<i>Current assets</i>			
Inventories	8	2,934,720	1,873,747
Trade and other receivables	9	14,959,272	13,826,026
Short-term borrowings to employees		556,947	511,381
Current income tax assets		-	3,341,784
Held-to-maturity deposits	10	8,984,064	10,175,359
Cash and bank balances	11	1,335,912	1,647,222
		<u>28,770,915</u>	<u>31,375,519</u>
<b>Total assets</b>		<u><u>106,907,531</u></u>	<u><u>122,517,601</u></u>

## Statement of financial position (continued)

In thousand drams		As of December 31, 2010	As of December 31, 2009
	Note		
<b>Equity and liabilities</b>			
<i>Capital and reserves</i>	12		
Share capital		550,000	550,000
Reserve capital		82,500	82,500
Accumulated profit		59,360,485	46,496,875
		<u>59,992,985</u>	<u>47,129,375</u>
<i>Non-current liabilities</i>			
Borrowings from related parties	13	26,885,218	26,681,487
Other non-current liabilities		294,233	122,791
		<u>27,179,451</u>	<u>26,804,278</u>
<i>Current liabilities</i>			
Borrowings from related parties	13	12,257,125	41,836,695
Deferred revenue		1,872,093	2,053,190
Trade and other payables	14	5,260,440	4,694,063
Current income tax liability		345,437	-
		<u>19,735,095</u>	<u>48,583,948</u>
<b>Total equity and liabilities</b>		<u>106,907,531</u>	<u>122,517,601</u>

The financial statements were approved on April 14, 2011 by:

Ralph Yirikian  
 General Director

Andrey Moskovskikh  
 Finance and Accounting Department  
 Manager



The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 35.

## Statement of comprehensive income

In thousand drams		Year ended December 31,	Year ended December 31,
	Note	2010	2009
<i>Gross operating revenue</i>			
Mobile services	15	54,272,025	58,909,451
Interconnection		18,356,457	18,816,252
Roaming services		2,912,047	1,724,351
Value Added Services		1,339,437	775,728
Other		804,724	68,571
		<u>77,684,690</u>	<u>80,294,353</u>
<i>Gross operating costs</i>			
Cost of scratch cards and SIM cards		(853,724)	(1,298,135)
Payments to dealers		(2,266,003)	(2,522,556)
Interconnection		(10,719,787)	(11,474,508)
Other network operating costs		(6,634,812)	(4,810,551)
Depreciation, amortization and impairment		(21,733,059)	(18,188,833)
Payroll and employee benefits		(7,427,142)	(7,141,590)
Management fee		(1,394,075)	(1,318,699)
Other operating expenses, net	16	(15,008,276)	(9,521,945)
		<u>11,647,812</u>	<u>24,017,536</u>
<i>Results from operating activities</i>			
Finance income	17	1,224,955	1,368,997
Finance cost	17	(2,354,572)	(3,708,723)
Other financial items	18	6,033,001	(10,378,213)
Profit before tax		<u>16,551,196</u>	<u>11,299,597</u>
Income tax expense	19	(3,687,586)	(4,809,542)
Profit for the year		<u>12,863,610</u>	<u>6,490,055</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>12,863,610</u>	<u>6,490,055</u>

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 35.

## Statement of changes in equity

In thousand drams

	Share capital	Reserve capital	Accumulated profit	Total
as of January 1, 2009	550,000	82,500	40,006,820	40,639,320
Profit for the year	-	-	6,490,055	6,490,055
Total comprehensive income for the year	-	-	6,490,055	6,490,055
as of December 31, 2009	550,000	82,500	46,496,875	47,129,375
Profit for the year	-	-	12,863,610	12,863,610
Total comprehensive income for the year	-	-	12,863,610	12,863,610
as of December 31, 2010	550,000	82,500	59,360,485	59,992,985

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 35.

## Statement of cash flows

In thousand drams	Year ended December 31, 2010	Year ended December 31, 2009
Cash flows from operating activities		
Profit after taxation	12,863,610	6,490,055
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	21,733,059	18,188,833
Finance cost	2,354,572	3,708,723
Finance income	(1,224,955)	(1,368,997)
Income tax expense	3,687,586	4,809,542
Loss on disposal of property and equipment	18,780	2,028
Allowance for doubtful receivables	2,001,188	780,100
Non-cash services received	522	1,467,912
Foreign exchange (gain)/loss	(6,033,001)	10,378,213
<i>Operating profit before working capital changes</i>	<u>35,401,361</u>	<u>44,456,409</u>
Change in trade and other receivables	(3,181,477)	4,710,805
Change in borrowings to employees	(45,566)	(203,460)
Change in deferred revenue	(181,097)	283,363
Change in inventories	(1,060,973)	230,973
Change in trade and other payables	263,853	338,529
Change in non-current liabilities	188,044	(20,775)
<i>Cash generated from operations</i>	<u>31,384,145</u>	<u>49,795,844</u>
Interest paid	(452,142)	-
Income tax paid	-	(6,732,132)
<i>Net cash from operating activities</i>	<u>30,932,003</u>	<u>43,063,712</u>

## Statement of cash flows (continued)

In thousand drams	Note	Year ended December 31, 2010	Year ended December 31, 2009
<i>Cash flows from investing activities</i>			
Acquisition of property and equipment and intangible assets		(8,228,356)	(20,369,076)
Proceeds from disposal of property and equipment		84,717	5,167
Short-term deposits made		(7,741,954)	-
Interest received		532,393	628,716
<i>Net cash used in investing activities</i>		<u>(15,353,200)</u>	<u>(19,735,193)</u>
<i>Cash flows from financing activities</i>			
Loans repaid, net		(24,789,420)	(21,651,688)
<i>Net cash used in financing activities</i>		<u>(24,789,420)</u>	<u>(21,651,688)</u>
Net increase/ (decrease) in cash and cash equivalents		(9,210,617)	1,676,831
Foreign exchange effect on cash		177,708	3,857,099
Cash and cash equivalents at the beginning of the year		11,822,581	6,288,651
Cash and cash equivalents at the end of the year	25	<u>2,789,672</u>	<u>11,822,581</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 35.