Financial Statements and Independent Auditor's Report

“MobiDram” closed joint stock company

31 December 2017

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Independent auditor's report

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To the shareholder of "MobiDram" closed joint stock company

Opinion

We have audited the financial statements of "MobiDram" closed joint stock company (the "Company"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the as of 31 December 2017, and of its financial performance and its 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 Company 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 matters

The financial statements of "MobiDram" closed joint stock company for the year ended 31 December 2016 were audited by another auditor, who expressed unmodified opinion in respect of those financial statements at 09 June 2017.

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 IFRSs, 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.

Auditor's 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 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 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 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 auditor's 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 auditor's 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.

Gagik Gyulbudaghyan
Managing Partner

Marine Musheghyan
Audit Manager

15 June 2018

Statement of financial position

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016
Assets			
Non-current assets			
Property and equipment	4	10,614	19,040
Intangible assets	5	237,371	202,530
Deferred income tax assets	6	80,444	72,844
		328,429	294,414
Current assets			
Inventories		1,886	2,630
Trade and other receivables	7	40,402	45,811
Overpay on income tax		308	308
Deposits in banks	8	61,200	-
Cash and cash equivalents	9	281,108	315,463
		384,904	364,212
Total assets		713,333	658,626
Equity and liabilities			
Capital			
Share capital	10	813,000	713,000
Additional capital		49,534	49,534
Accumulated loss		(570,644)	(479,347)
		291,890	283,187
Non-current liabilities			
Borrowings	11	297,113	278,211
		297,113	278,211
Current liabilities			
Trade and other payables	12	124,330	97,228
		124,330	97,228
Total equity and liabilities		713,333	658,626

The financial statements from pages 5 to 31 were signed by the Company's General Director and Chief Accountant on 14 June 2018:

Kim Avanesyan
General Director

Susanna Zargaryan
Chief Accountant

The accompanying notes on pages 9 to 31 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended 31 December 2017	Year ended 31 December 2016
Utility payments	13	99,155	66,425
External payments		7,164	7,242
Loan payments		16,264	7,560
International money transfers		2,219	1,625
Electronic money		9,089	6,274
Other		7,209	2,317
Total revenue		141,100	91,443
Staff expenses		(101,350)	(81,919)
Depreciation and amortization	4, 5	(44,497)	(39,371)
Program maintenance expenses		(25,223)	(22,937)
Impairment charge	9	(20,000)	-
Other operating expenses	14	(47,502)	(45,092)
Total operating expenses		(238,572)	(189,319)
Results from operating activities		(97,472)	(97,876)
Finance income	15	8,722	6,100
Finance costs	15	(18,738)	(27,351)
Gains from foreign exchange differences		8,591	3,785
Loss before income tax		(98,897)	(115,342)
Income tax recovery	16	7,600	15,449
Loss for the year		(91,297)	(99,893)
Total comprehensive income for the year		(91,297)	(99,893)

The accompanying notes on pages 9 to 31 are an integral part of these financial statements.

Statement of changes in equity

In thousand drams	Share capital	Additonal capital	Accumulated loss	Total
as of 1 January 2016	613,000	49,534	(379,454)	283,080
Issue of share capital	100,000	-	-	100,000
Transactions with owners	100,000	-	-	100,000
Loss for the year	-	-	(99,893)	(99,893)
as of 31 December 2016	713,000	49,534	(479,347)	283,187
Issue of share capital	100,000	-	-	100,000
Transactions with owners	100,000	-	-	100,000
Loss for the year	-	-	(91,297)	(91,297)
as of 31 December 2017	813,000	49,534	(570,644)	291,890

The accompanying notes on pages 9 to 31 are an integral part of these financial statements.

Statement of cash flows

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Loss for the year	(98,897)	(115,342)
Adjustments for:		
Depreciation and amortization	44,497	39,371
Finance income	(8,722)	(6,100)
Finance costs	18,738	27,351
Foreign exchange gain net	(8,591)	(3,785)
Operating loss before working capital changes	(52,975)	(58,505)
Change in trade and other receivables	5,492	(12,552)
Change in inventories	745	(389)
Change in trade and other payables	26,706	(3,898)
Change in term deposits	(61,200)	-
Net cash used in operating activities	(81,232)	(75,344)
Cash flows from investing activities		
Acquisition of property and equipment	(1,756)	(489)
Acquisition of intangible assets	(69,156)	(60,595)
Interest income received	8,722	5,036
Net cash used in investing activities	(62,190)	(56,048)
Cash flows from financing activities		
Proceeds from issue of share capital	100,000	100,000
Net cash generated from financing activities	100,000	100,000
Net decrease in cash and cash equivalents	(43,422)	(31,392)
Foreign exchange effect on cash	9,067	3,848
Cash and cash equivalents at the beginning of the year	315,463	343,007
Cash and cash equivalents at the end of the year (note 9)	281,108	315,463

The accompanying notes on pages 9 to 31 are an integral part of these financial statements.

Notes to the financial statements

1 Nature of operations and general information

MobiDram CJSC (the “Company”) is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2011. The Company is regulated by the legislation of RA and conducts its business under license number 15, granted on 14.10.2011 by the Central Bank of Armenia (the “CBA”).

The sole shareholder of the Company is "MTS Armenia" CJSC.

The Company’s activity consists in providing payment and settlements services. Its main services include the utility payments, including electricity, gas and water supply, fixed and cell phone payments, payments for internet services, as well as wire transfers etc.

The Company’s registered office is located at 4/1 Argishti str., Yerevan, Republic of Armenia. The Company has 16 branches in Yerevan and 10 branches RA regions.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are stated at present discounted value of future cash flows.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram (“dram”), which is the Company’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in Armenian drams, since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 18 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2017

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

The amendments to IAS 7, effective 1 January 2017, require the Company to provide disclosures about the changes in liabilities from financing activities. The Company categorizes those changes into changes arising from cash flows and non-cash changes with further sub-categories as required by IAS 7 (refer to note 25).

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealized Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;
- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are required to be applied retrospectively. There has not been a material impact on the Company's financial statements from these Amendments.

Annual Improvements 2014-2016

The Annual Improvements 2014-2016 made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarized below:

IFRS 12 is required to be applied retrospectively in accordance with IAS 8.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

The IASB released IFRS 9 *Financial Instruments*, representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Company's management have yet to assess the impact of this new standard on the Company's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Company's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 *Leases*

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Company's management have not yet assessed the impact of IFRS 16 on these financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Company initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the Company shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRIC 23 Uncertainty over Income Tax Treatment

IFRIC 23 provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions.

The exchange rates defined by the Central Bank of Armenia in the preparation of the financial statements are as follows:

	31 December 2017	31 December 2016
AMD/1 US Dollar	484.10	483.94
AMD/1 EUR	580.10	512.20
AMD/1 RUB	8.40	7.88

Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

Depreciation is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Machinery and equipment	-	5 years
Computer equipment (except servers and network equipment)	-	3 years
Servers and network equipment	-	5 years
Other	-	3 years.

3.3 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Intangible assets generally include computer software.

Amortization is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the intangible assets, which is estimated from 2 to 10 years for computer software.

3.4 Leased assets

Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance, are expensed as incurred.

3.5 Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.6 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets are divided into the following categories upon initial recognition:

- loans and receivables
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income. Refer to note 19.2 for a summary of the Company's financial assets by category.

Generally, the Company recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses [*change, as appropriate*].

i Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and cash equivalents.

Trade and other receivables

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to profit or loss of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in transit, accounts in banks and terminals, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

ii Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity and include deposits at commercial banks. Investments are classified as held-to-maturity if it is the intention of the Company's management to hold them until maturity.

Deposits are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the deposit has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the deposit are recognized in profit or loss.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include loans and borrowings, trade and other payables and finance lease liabilities. A summary of the Company's financial liabilities by category is given in note 19.2.

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. The difference between fair value and nominal value is recognized in profit or loss, except when the borrowing was received from the owners. In this instance the difference between fair value and nominal value is recognized in equity as additional capital. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

Long-term interest-free borrowings from participants are valued at the current discounted value of all future cash inflows using the prevailing interest rate on similar instruments in similar terms to similar instruments (similar to the currency, terms, interest rate and other factors).

ii Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.7 Impairment

Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

3.8 Equity

Equity instruments issued by the Company are recorded at nominal value.

Share capital represents the nominal value of shares that have been issued.

Accumulated loss comprises the accumulated loss of current and prior periods.

Additional capital is the difference between the fair and nominal values of the borrowing from the Company's participant that is recognized as an Additional capital in equity.

Dividends are recognized as a liability in the period in which they are declared.

3.9 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.11 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves;

When employees render services to the Company during the accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Company shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Paid absences

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

Bonuses

The expected cost of bonus payments is recognized when and only when the Company has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

3.12 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company.

Rendering of services

Revenue from a contract to provide services is recognized when:

- the amount of revenue may be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the stage of completion of the transaction at the reporting date may be reliably measured; and
- the costs incurred for the transaction and the costs to complete the transaction may be reliably measured.

The Company's revenue mainly arises from wire transfer services.

The accounting of wire transfer services rendered by the Company is maintained based on the reports and other written explanations presented by the processing, technical and other departments of the Company. Depending on terms the mentioned reports and written explanations may be submitted on daily or monthly basis.

Wire transfer services

Revenue arises from commissions paid by banks against the wire transfer services.

Wire transfer services mainly include:

- receiving payments in AMD or foreign currency from payers and for making payments through the direct beneficiary or other person providing payment and settlement services.
- issuance, servicing and sale of electronic money;
- Implementation of cashier transactions for third parties;
- processing and clearing;

Interest income

Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3.13 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

4 Property and equipment

In thousand drams	Machinery and equipment	Computer equipment (including servers)	Other	Total
Cost				
as of 1 January 2016	10,372	64,452	4,864	79,688
Additions	-	-	489	489
as of 31 December 2016	10,372	64,452	5,353	80,177
Additions	-	460	1,296	1,756
as of 31 December 2017	10,372	64,912	6,649	81,933
Accumulated depreciation				
as of 1 January 2016	2,236	40,977	2,993	46,206
Charge for the year	2,069	11,867	995	14,931
as of 31 December 2016	4,305	52,844	3,988	61,137
Charge for the year	2,068	7,173	941	10,182
as of 31 December 2017	6,373	60,017	4,929	71,319
Carrying amount				
as of 31 December 2016	6,067	11,608	1,365	19,040
as of 31 December 2017	3,999	4,895	1,720	10,614

Fully depreciated items

As of 31 December 2017 fixed assets included fully depreciated assets at the amount of AMD 52,357 thousand (2016: AMD 19,299 thousand).

Restrictions on title of fixed assets

As of 31 December 2017, the Company did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2016: either).

5 Intangible assets

In thousand drams	Computer software	Other	Total
Cost			
as of 1 January 2016	221,160	2,450	223,610
Additions	60,595	-	60,595
as of 31 December 2016	281,755	2,450	284,205
Additions	69,156	-	69,156
as of 31 December 2017	350,911	2,450	353,361
Accumulated amortization			
as of 1 January 2016	56,860	375	57,235
Charge for the year	24,195	245	24,440
as of 31 December 2016	81,055	620	81,675
Charge for the year	34,070	245	34,315
as of 31 December 2017	115,125	865	115,990
Carrying amount			
as of 31 December 2016	200,700	1,830	202,530
as of 31 December 2017	235,786	1,585	237,371

As at 31 December 2017 the Company has not possessed intangible assets pledged as security for liabilities or whose title is otherwise restricted (2016: either).

As of 31 December 2017 intangible assets included fully depreciated assets in amount of AMD 1,869 thousand (2016: nil).

In 2017 the Company has completed the restoration work in the M-Payment system, including for IOS and Android applications, M-Payment payment system integration in MPLAT system, MobiDram Business Application for IOS, MTS Deng Module integration with exchange module for transfers to Armenia.

6 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousand drams	2017	2016
Balance at the beginning of year	72,844	57,395
Recovery recognized to profit or loss (refer to note 16)	7,600	15,449
Balance at the end of year	80,444	72,844

Deferred income taxes for the year ended 31 December 2017 can be summarized as follows:

In thousand drams	31 December 2016	Recognized in profit or loss	31 December 2017
Deferred income tax assets			
Cash	-	4,000	4,000
Amounts due to staff	1,516	339	1,855
Tax losses carried forward	91,630	(6,607)	85,023
	93,146	(2,268)	90,878
Deferred income tax liabilities			
Property and equipment	(689)	(92)	(781)
Intangible assets	(575)	(160)	(735)
Long-term borrowings	(9,273)	355	(8,918)
	(10,537)	103	(10,434)
Impairment of deferred income tax assets	(9,765)	9,765	-
Net position – deferred income tax assets	72,844	7,600	80,444

Deferred income taxes for the year ended 31 December 2016 can be summarized as follows:

In thousand drams	31 December 2015	Recognized in profit or loss	31 December 2016
Deferred income tax assets			
Amounts due to staff	968	548	1,516
Tax losses carried forward	70,539	21,091	91,630
	71,507	21,639	93,146
Deferred income tax liabilities			
Property and equipment	(597)	(92)	(689)
Intangible assets	(430)	(145)	(575)
Long-term borrowings	(11,533)	2,260	(9,273)
	(12,560)	2,023	(10,537)
Impairment of deferred income tax assets	(1,552)	(8,213)	(9,765)
Net position – deferred income tax assets	57,395	15,449	72,844

The Company's management anticipates that the Company may use the income tax loss fully during the period from 2018 to 2021 as established by legislation.

7 Trade and other receivables

In thousand drams	As of 31 December 2017	As of 31 December 2016
Proceeds from electronic money	17,539	31,569
Receivables from wire transfer services	20,701	9,982
Other trade receivables	2,162	4,260
	40,402	45,811

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

No interest is charged on the trade receivables.

Trade receivables provided based on estimated irrecoverable amounts from the sale of goods determined by reference to past default experience.

In determining the recoverability of a trade receivable the Company considers any change in the repayment pattern from the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer range being large and unrelated. The Management believes that there are no doubtful and impaired receivables as of 31 December 2017, 2016.

Refer to note 20 for the currencies in which the trade and other receivables are denominated.

8 Deposits in banks

In thousand Armenian drams	As of 31 December 2017	As of 31 December 2016
Term deposits	61,200	-
	61,200	-

All deposits are not impaired or past due.

As of 31 December 2017, the deposit is invested in one bank in AMD and is subject to repayment until 20 October 2018.

As of 31 December 2017 the average effective interest rates on deposits in banks were 11%.

9 Cash and cash equivalents

In thousand drams	As of 31 December 2017	As of 31 December 2016
Term deposits	-	156,788
Cash in commercial banks	199,243	82,022
Petty cash	42,049	34,035
Cash in transit	43,415	32,550
Cash in terminals	16,401	10,068
	301,108	315,463
Impairment reserve	(20,000)	-
Total cash and cash equivalents	281,108	315,463

The movement in allowance for impairment losses on cash and cash equivalents is as follows:

In thousand Armenian drams	Total
At 1 January 2017	-
Net charge for the year	20,000
At 31 December 2017	20,000

As of 31 December 2016 short-term deposits are placed in two banks in AMD and US dollar and the weighted average effective interest rate on these deposits is 7.5% for deposits in AMD and 2.5% for deposits in US dollar.

As of 31 December 2017 the amounts of correspondent accounts at the amounts of AMD 129,410 thousand (65%) (2016: AMD 40,212 thousand (49%)) were due from one commercial bank, which represent a significant concentration.

Cash in transit represents amounts collected by Company's cash collectors, other cash collecting organizations and agents from terminals and Company's branches and later credited into bank accounts, but not yet accounted for by banks.

Refer to note 20 for the currencies in which the cash and cash equivalents are denominated.

10 Capital and reserves

10.1 Share capital

As of 31 December 2017 the Company's registered and paid-in charter capital was AMD 813,000 thousand.

In 2017 the Company increased the share capital by AMD 100,000 thousand (2016: AMD 100,000 thousand).

In accordance with the Company's statues, the share capital consists of 813,000 (2016: 713,000) ordinary shares. All shares have a nominal value of AMD 1,000 (2016: AMD 1,000).

As of 31 December 2017 and 2016, the Company's sole shareholder was "MTS Armenia" CJSC, which owns 100% of the Company's shares.

As of 31 December 2017 the Company did not possess any of its own shares (2016: either).

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

10.2 Additional capital

The difference between fair and contractual values of low interest subordinated debts provided by the Company's participant is AMD 49,534 thousands, recognized in equity as Additional capital (refer to note 11).

11 Borrowings

In thousand drams	As of 31 December 2017	As of 31 December 2016
Unsecured borrowings from related parties	297,113	278,211
	297,113	278,211

The borrowing has been attracted from the parent of the Company at a rate below market rate. The fair value of the borrowing has been determined by discounting the future cash flows at market rate. The discount has been recognized in equity as additional capital. The fair values are based on cash flows discounted at 10%.

The principal amount and interests of the borrowing are to be repaid at the end of the contract term. Refer to note 20 for the currencies in which the borrowings are denominated.

12 Trade and other payables

In thousand drams	As of 31 December 2017	As of 31 December 2016
Trade payables	10,092	8,051
Wire transfer transactions	74,197	63,348
Payables to customers on e-money	22,797	11,450
Amounts due to staff	5,677	3,984
Advances received	5,930	7,852
Taxes, other than income tax	2,250	1,582
Other liabilities	3,387	961
	124,330	97,228

No interest is charged on the trade payables. The Company has financial risk management policies to ensure that all payables are paid within the credit timeframe.

Refer to note 20 for more information about the Company's exposure to foreign currency risk.

13 Utility payments

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Telephone and internet	60,737	33,704
Gas	17,675	17,196
Electricity	17,354	12,284
Water supply	3,389	3,241
	99,155	66,425

14 Other operating expenses

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Program maintenance	3,606	5,614
Cash collection	8,912	8,644
Operating lease	11,340	8,537
Rendering services	1,932	5,192
Post and communication	2,578	2,511
Office supplies	4,442	2,459
Banking services	4,067	2,795
Professional services	3,600	3,260
Marketing and advertising	1,682	1,374
Taxes, other than income tax, duties	500	500
Financial mediator fees	140	140
Business trip expenses	206	132
Other	4,497	3,934
	47,502	45,092

15 Finance income and costs

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Interest expenses on borrowings from related party	(18,738)	(27,351)
Total finance costs	(18,738)	(27,351)
Bank deposits and accounts	8,722	6,100
Total finance income	8,722	6,100
Net finance costs	(10,016)	(21,251)

16 Income tax recovery

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Current tax	-	-
Deferred tax (refer to note 6)	(7,600)	(15,449)
	(7,600)	(15,449)

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2016: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax recovery and accounting loss is provided below:

In thousand drams	Year ended 31 December 2017	Effective tax rate (%)	Year ended 31 December 2016	Effective tax rate (%)
Loss before taxation	(98,897)		(115,342)	
Tax calculated at a tax rate of 20%	(19,779)	(20)	(23,068)	(20)
Foreign exchange gains/(losses)	1,718	2	(757)	(1)
Deduction of deferred income tax asset	10,417	10	8,213	7
Non-deductable expenses	44	-	163	-
Income tax recovery	(7,600)	(8)	(15,449)	(14)

17 Subsequent events

In 2017 the Company has launched 2 new branches.

18 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

18.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of property and equipment and intangible assets

At each reporting date the Company estimates the indicators for impairment of assets. The Company calculates the recoverable amount if the impairment indicators are available. Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

In assessing whether there is any indication that an asset may be impaired, management makes certain estimations, including particularly the reason, timing and amount of impairment. Impairment depends on certain factors, including particularly technological changes (that can have an impact on the carrying amount of intangible assets) failure to continue providing services (which may result to termination of the license and consequently impairment of intangible assets).

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer to note 21)

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. As presented in note 11, the parent company has provided a borrowing to the Company at a lower interest rate. In accordance with the Management's estimates the carrying values of borrowings provided do not comply with their fair values and therefore are discounted at market rates applicable at the time of the borrowing provision disbursement, taking into account interest rates in the relevant financial market for borrowing in such currencies and conditions.

19 Financial instruments

19.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the note 3.6.

19.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand drams	As of 31 December 2017	As of 31 December 2016
Held-to-maturity investments:		
Deposits in banks	61,200	-
Loans and receivables:		
Trade and other receivables	38,240	41,551
Cash and cash equivalents	281,108	315,463
	380,548	357,014

Financial liabilities

In thousand drams	As of 31 December 2017	As of 31 December 2016
Financial liabilities designated at amortised cost:		
Borrowings	297,113	278,211
Trade and other payables	112,763	86,833
	409,876	365,044

20 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Financial risk factors

a) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks [customize], which result from both its operating and investing activities.

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Foreign currency denominated financial assets which expose the Company to currency risk are disclosed below.

Item

As of 31 December 2017	**US dollar**	**Euro**	**Other**
Financial assets			
Receivables on wire transfers	103	72	-
Cash and cash equivalents	49,033	29,941	47,108
	49,136	30,013	47,108
Financial liabilities			
Borrowings	297,113	-	-
	297,113	-	-
Net position as of 31 December 2017	(247,977)	30,013	47,108
Total financial assets	125,160	30,798	28,292
Total financial liabilities	278,598	-	-
Net position as of 31 December 2016	(153,438)	30,798	28,292

The following table details the Company's sensitivity to a 10% (2016: 10%) increase and decrease in dram against US dollar, Euro and Ruble. 10% (2016: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2016: 10%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar, Euro and Ruble by 10% (2016: 10%) then this would have had the following impact:

In thousand drams	US dollar impact		Euro impact		Ruble impact	
	2017	2016	2017	2016	2017	2016
Profit or loss	(24,798)	(15,344)	3,001	3,080	4,711	2,829
Equity	(24,798)	(15,344)	3,001	3,080	4,711	2,829

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at fixed rates. This risk is managed by the Company by maintaining appropriate fixed rate borrowings.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The effect of this risk for the Company arises from different financial instruments, such as accounts receivable, term deposits. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of 31 December 2017	As of 31 December 2016
Financial assets at carrying amounts		
Trade and other receivables	38,240	41,551
Deposits in banks	61,200	-
Cash and cash equivalents	281,108	315,463
	380,548	357,014

Management believes that there is no credit risk related to bonds and amounts due from financial institutions.

At the reporting date there was no significant concentration of credit risk in respect of trade and other receivables. As of 31 December 2017 and 31 December 2016 the Company had no overdue receivables and thus had not made provisions in respect of them.

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Company calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia i.e. the ratio between high liquid assets and liabilities of payment and settlement organizations issuing electronic money should be 100%.

As of 31 December 2017 the Company maintained the liquidity norm defined by the Central Bank of Armenia. The Company has not violated the liquidity norm.

As of 31 December the indicators are as follows:

As of 31 December, these ratios were as follows:	Not audited	
	As of 31 December 2017, %	As of 31 December 2016, %
Highly liquid assets/ liabilities	288	326

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams	As of 31 December 2017				
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities					
Borrowings	-	352,937	-	-	352,937
Trade payables	112,763	-	-	-	112,763
Total undiscounted financial liabilities	112,763	352,937	-	-	465,700

In thousand Armenian drams	As of 31 December 2016				
	Demand and less than 1 month	From 1 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities					
Borrowings	-	-	333,586	-	333,586
Trade payables	86,833	-	-	-	86,833
Total undiscounted financial liabilities	86,833	-	333,586	-	420,419

21 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

21.1 Financial instruments not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams	As of 31 December 2017				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Trade and other receivables	-	38,240	-	38,240	38,240
Deposits in banks	-	61,200	-	61,200	61,200
Cash and cash equivalents	-	281,108	-	281,108	281,108
Financial liabilities					
Borrowings	-	297,113	-	297,113	297,113
Trade and other payables	-	112,763	-	112,763	112,763

In thousand Armenian drams	As of 31 December 2016				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Trade and other receivables	-	41,551	-	41,551	41,551
Cash and cash equivalents	-	315,463	-	315,463	315,463
Financial liabilities					
Borrowings	-	278,211	-	278,211	278,211
Trade and other payables	-	86,833	-	86,833	86,833

Trade and other receivables and payables

The fair value of trade and other receivables and payables is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of amounts on demand is the amount payable at the reporting date.

Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost. Carrying amount of cash and cash equivalents is close to their fair value.

22 Contingent liabilities

Tax and legal matters

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. Management believes that the Company has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Company, will not have a material adverse impact on the financial condition or results of future operations of the Company.

The shareholder of the Company should be obliged to reduce the share capital and register the decrease of the Company's share capital by determined regulation according to the requirements of Article 43 of RA Legislation "On Joint-Stock Companies", which states that net assets of the Company should not be less than the share capital after second and every consecutive year.

The estimated net asset value of the Company is less than the share capital according to the audit review of two or more financial years. In order to provide going concern of the business, the Company will take measures on this direction and during 2018 will provide the compliance of regulatory requirements.

As of 31 December 2017 there were no legal actions and complaints taken against the Company. Therefore, the Company has not made any respective provision related to such tax and legal matters.

23 Commitments

23.1 Operating lease commitments

The Company as a leasee

With the aim to ensure its activity the Company leased premises with lease term of ten years. The Company does not have an option to purchase the leased premises at the expiry of the lease period.

Operating lease commitments are disclosed below:

In thousand drams	**As of 31 December 2017**	**As of 31 December 2016**
Within one year	2,006	2,006
From 1 to 5 years	7,354	7,690
	9,360	9,696

24 Contingencies

24.1 Business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Deterioration of economic situation of countries collaborating with the Republic of Armenia led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Company.

However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

24.2 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Company's operations and financial position.

25 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand drams

	Share capital	**Borrowings**	**Total**
as of 1 January 2017	713,000	278,211	991,211
Cash-flows	*100,000*	-	*100,000*
Proceeds	100,000	-	100,000
Non-cash	-	*18,902*	*18,902*
Interest accrual	-	18,738	18,738
Foreign exchange loss	-	164	164
as of 31 December 2017	813,000	297,113	1,110,113

26 Related parties

The Company's related parties include its main participant and key management.

26.1 Control relationships

The Company is controlled by MTS Armenia CJSC, which is the ultimate parent of the Company

26.2 Transactions with related parties

A number of transactions are entered into with related parties in the normal course of business.

The size of related party transactions, outstanding balances at the year end, and related income for the year are as follows:

In thousand drams

Transactions	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Parent		
Rendering of services	54,244	27,196
Acquisition of property and equipment	(396)	-
Services received	(7,146)	(5,555)
Interest expense	(18,738)	(27,351)
	27,964	(5,710)

In thousand drams

Outstanding balances	Year ended 31 December 2017	Year ended 31 December 2016
Parent		
Trade and other receivables	6,921	2,712
Borrowings received	(297,113)	(278,211)
Trade and other payables	(27,855)	(21,235)
	(318,047)	(296,734)

26.3 Transactions with management and close family members

Management of the Company and their close family members as of 31 December 2017 and 31 December 2016 had no significant shares in "MTS Armenia" CJSC.

Key management received the following remuneration during the year, which is included in "Staff costs".

In thousand drams	Year ended 31 December 2017	Year ended 31 December 2016
Staff costs	2,491	2,519
	2,491	2,519

27 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios adopted by the Central Bank of Armenia.

The Central Bank of Armenia has set economic normative of the minimum size of total capital for payment companies to be AMD 100,000 thousand.

There has been no change in goals, policies and processes compared to previous years.

Regulatory capital consists of Tier 1 capital, which comprises charter capital (moreover, part of the charter capital, which is replenished by intangible assets, participates in the calculation of the regulatory capital in the amount of 25% of the minimum amount of AMD 100,000 thousand), retained earnings including current year profit. The other component of regulatory capital is Tier 2 capital, which includes subordinated debt.

As of 31 December 2017 and 2016 the amount of regulatory capital calculated in accordance with the requirements of Central Bank of Armenia are provided below:

	Not audited	
In thousand Armenian drams	2017	2016
Tier 1 capital	119,344	99,792
Tier 2 capital	53,251	53,233
Total regulatory capital	172,595	153,025

As at 31 December 2017, the Company maintained the capital adequacy ratio established by the Central Bank of Armenia, but as of 30 June 2017, and until 30 November 2017 the Company had a breach of the capital adequacy ratio (as of 30 June 2016 through 30 September 2016).