

INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of Orange Armenia CJSC

We have audited the accompanying financial statements of Orange Armenia CJSC (the "Company"), which comprise the statement of financial position as of 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, 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.

Auditors' 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 from 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 auditors' 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 auditors consider 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 also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 31 December 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst and Young CJSC

Partner

On behalf of General Director M. Alexandarian
(by power of attorney dated 09.01.2011)

April 23, 2013

Olesya Melnyk

Eric Hayrapetyan

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012
(Amounts in thousands of Armenian Drams)

	Notes	2012	2011
Revenue	8	20,224,919	13,984,810
Other operating income	10	600,506	928,346
Cost of equipment sold		(3,409,286)	(2,374,153)
Interconnection and International backbone expenses		(3,825,910)	(3,697,572)
Wages, benefits and payroll taxes	9	(2,647,573)	(2,133,835)
Property maintenance expense		(1,738,945)	(1,580,449)
Advertising and brand expenses		(2,071,917)	(2,572,923)
IT and Network maintenance expenses		(2,016,303)	(2,285,950)
Interactive expenses		(95,137)	(75,259)
Commission and distribution expenses		(2,104,746)	(1,922,662)
Travel expenses		(207,947)	(220,251)
Training expenses		(105,254)	(231,366)
Professional services		(468,731)	(558,948)
Spectrum fees		(1,596,000)	(1,596,543)
Depreciation and amortization	13,15	(3,779,528)	(6,759,855)
Impairment of non-current assets	14	-	(43,155,405)
Other operating expense	11	(2,143,787)	(1,920,095)
Operating loss		(5,385,639)	(56,172,110)
Interest income		15,471	10,411
Interest expenses		(1,179,581)	(2,500,201)
Foreign exchange loss		(2,048,855)	(3,674,986)
Loss before tax		(8,598,604)	(62,336,886)
Income tax	12	-	-
Loss for the year		(8,598,604)	(62,336,886)

Signed and authorized for release on behalf of the Management Board:

Chief Executive Officer

Francis Gilibter

Chief Accountant

Armine Yeremyan



April 23, 2013

STATEMENT OF FINANCIAL POSITION

As of 31 December 2012

(Amounts in thousands of Armenian Drams)

	<i>Notes</i>	<i>2012</i>	<i>2011</i>
ASSETS			
Non-current assets			
Property and equipment	13	23,374,275	20,480,334
Intangible assets	15	10,278,741	10,295,189
Deferred tax asset	12	-	-
Prepayments, non-current		7,171	235,187
Prepaid income tax		325,000	170,000
VAT receivable, non-current		4,069,588	6,324,690
		<u>38,054,775</u>	<u>37,505,400</u>
Current assets			
Inventory	16	611,924	613,123
Trade and other receivables	17	2,712,286	1,303,048
VAT receivable		5,964,027	4,361,770
Prepayments		829,770	514,246
Cash and cash equivalents	18	669,414	331,584
		<u>10,787,421</u>	<u>7,123,771</u>
TOTAL ASSETS		<u>48,842,196</u>	<u>44,629,171</u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	19	32,684,860	50,610,220
Accumulated deficit		(8,598,450)	(89,084,406)
		<u>24,086,410</u>	<u>(38,474,186)</u>
Non-current liabilities			
Long-term finance lease obligations		3,000	15,005
Provision for dismantling costs	20	890,489	830,910
		<u>893,489</u>	<u>845,915</u>
Current liabilities			
Short-term borrowings	21	14,270,226	72,932,451
Trade and other payables	22	7,047,161	7,496,260
Advances received		1,920,468	1,109,338
Taxes payable	23	624,442	719,393
		<u>23,862,297</u>	<u>82,257,442</u>
TOTAL EQUITY AND LIABILITIES		<u>48,842,196</u>	<u>44,629,171</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended 31 December 2012

(Amounts in thousands of Armenian Drams)

	<i>Number of shares</i>	<i>Nominal value of shares, AMD</i>	<i>Share Capital</i>	<i>Accumulated losses</i>	<i>Total shareholder's equity</i>
1 January 2011	50,610,220	1,000.000	50,610,220	(26,747,520)	23,862,700
Loss for the year			-	(62,336,886)	(62,336,886)
31 December 2011	50,610,220	1,000.000	50,610,220	(89,084,406)	(38,474,186)
Share Issue	71,159,200	1,000.000	71,159,200	-	71,159,200
Offset of accumulated losses against share capital	-	(731.584)	(89,084,560)	89,084,560	-
Loss for the year	-	-	-	(8,598,604)	(8,598,604)
31 December 2012	<u>121,769,420</u>	<u>268.416</u>	<u>32,684,860</u>	<u>(8,598,450)</u>	<u>24,086,410</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

(Amounts in thousands of Armenian Drams)

	Notes	2012	2011
Operating activities			
Loss before income tax		(8,598,604)	(62,336,886)
Adjustments to reconcile loss before income tax to net cash flows			
Impairment loss	14	-	43,155,405
Depreciation and amortisation	13,15	3,779,528	6,759,855
(Gain) /loss on disposal of property, plant and equipment	10,11	(4,350)	35,084
Write down of inventories to net realisable value		18,105	(7,724)
Foreign exchange loss		2,048,855	3,674,985
Interest expense		1,179,581	2,500,201
Bad debt expense	17	310,772	299,207
Operating cash flows before working capital changes		(1,266,113)	(5,919,873)
(Increase)/Decrease in trade and other receivables		(1,720,012)	524,466
Increase in prepayments		(87,507)	(143,535)
Increase in inventories		(16,906)	(51,914)
Decrease in trade and other payables		(527,511)	(3,975,733)
Increase/(decrease) in advances received		811,129	(122,108)
Decrease/ (increase) in VAT receivable		652,845	(486,460)
Increase in taxes payable other than income tax		(94,951)	(1,640,699)
Net cash used in operating activities before income tax paid		(2,249,026)	(11,815,856)
Income tax paid		(155,000)	(80,000)
Net cash used in operating activities		(2,404,026)	(11,895,856)
Investing activities			
Purchase of property, plant and equipment and assets under construction		(5,296,492)	(7,356,355)
Purchase of intangible assets		(1,474,135)	(2,324,673)
Proceeds from disposal of property, plant and equipment		42,429	105,625
Net cash used in investing activities		(6,728,198)	(9,575,403)
Financing activities			
Issuance of share		71,159,200	-
Interest paid		(1,043,907)	(2,314,978)
Proceeds from short-term borrowings		40,314,270	57,552,584
Repayment of short-term borrowings		(100,999,956)	(34,800,426)
Net cash from financing activities		9,429,607	20,437,180
Effect of exchange rate changes on cash and cash equivalents		40,447	173,272
Net increase/(decrease) in cash and cash equivalents		337,830	(860,807)
Cash and cash equivalents at the beginning of the year	18	331,584	1,192,391
Cash and cash equivalents at the end of the year	18	669,414	331,584

The accompanying notes are an integral part of these financial statements.