

Independent Auditor's report

**To: Shareholders of
Ard Financial group CJSC**

Opinions

We have audited the consolidated financial statements of ARD FINANCIAL GROUP CJSC which comprise the statements of financial position as of December 31, 2017, the statements of profit or loss and other comprehensive income, the statements of changes in equity, the statements of cash flow for the year then ended and the notes to the financial statements including highly significant accounting policies of ARD FINANCIAL GROUP CSJC and its component companies.

In our opinion, the consolidated statement of financial position, profit or loss and other comprehensive income, changes in equity and cash flow as of December 31, 2017 present fairly and are, in all material respects, in compliance with the International Financial Reporting Standards.

Opinion basis

We conducted our audit in accordance with the International Standards on Auditing (ISA). According to the standards, our responsibilities are stated in the auditor's responsibility for financial statement audit section of this financial statement. We have complied with ethical requirements of financial statements auditing in order to be independent from our customer and comply with ethical responsibilities and other obligations under these requirements.

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

Audit key issues

The audit key issues, that draw our best attention, are identified by our professional solution during the auditing of financial statements for the reporting year. The audit key issues are carefully considered during the conducting of our audit on financial statements and determining the type of audit opinion for financial statements. However, we do not provide separate opinion on these key issues.

Other information

The management is responsible for other information. Although other information comprises the information reported in the annual statement, the financial statements and auditor's report may not be included in the other information. Therefore, we do not express assurance over other information.

An audit includes reading the other information to consider whether these information are in compliance with the financial statements in material respect. If we have revealed that there is a misreporting in material respect in other information based on our work, an audit must disclose those misreporting. During the audit, such situation did not arise.

The responsibilities of the management and governing management for the financial statements

The management is responsible for preparation and fair presentation of financial statements in accordance with the IFRS, whereas these responsibilities include identifying the internal control relevant to the preparation and fair presentation of financial statements that are free from fraud and error incurred from material misstatement.

The management is responsible for conducting the operations in accordance with the principle of continuous financial statement preparation based on going concern and constantly evaluating the company's ability management financial statements, except the cases of insolvency, or ceasing its activities, and to have to disclose additional clarification relevant to continuity of the accounting basis used for accounting.

Corporate governance is responsible for supervision of the financial reporting process.

Auditor's responsibility in financial statement audit

Our goal is to prepare the auditor's report indicating our opinion with assurance that financial statements in whole that are free from fraud and error incurred from material misstatement. Most reasonable assurance is highest guarantee with high level of assurance, but it does not detect all misstatements upon audit conducted in accordance with ISA. If it is considered that error or fraud is in substantial amount, then it may influence the economic decisions of users of financial statements.

According to ISA, we had a professional skeptical approach throughout the audit. And we have performed the following tasks:

- We have assessed whether the financial statements have material misstatement incurred from fraud or error, undertaken audit procedures to determine its response, obtained sufficient appropriate audit evidence as basis for opinion. An alleged conspiracy to forging operations, and deliberate neglect, ignorance of internal controls has risks of not detecting material misstatements and misreporting, instead of one error.

- In order to develop appropriate audit procedures we have gained an understanding of the company's internal control system, but we have no intention to evaluate the effectiveness of internal control.
- We have assessed the appropriateness of the Company's accounting policies and accounting estimates and disclosures used.
- If the company has going concern which has a material uncertainty, then we will focus on in the relevant disclosure of financial statements. If this is enough to mention the relevant disclosures, we shall change our opinions. Our audit report related to the audit findings based on evidence until the date of the auditor's report. Therefore, their ability to influence the situation on a going concern basis the company may arise in the future.
- We reviewed the entire structure, content, presentation and disclosure of financial statements and assessed the accuracy of transactions and events financial statement presentation.

We had communicated with the governing management in regard of the audit scope, timing, and other related issues, and in addition to significant and important issues during the audit and the internal control weaknesses observed during the audit.

And we have notified governing management with the relevant ethical requirements regarding independence of the auditor, and discussed any relationships that may affect our independence, and possibilities of preventive measures, and other issues.

We have identified most important audit issues that are considered as most important and communicated with the governing management. We have shown in the auditor's report most important key issues, since public disclosure may result the negative consequences these foreseen by laws, and we have stated these in the auditor's report.

Other

This report is intended only for the company's shareholders in accordance with Article 94 of the Law on company and we shall not be liable to any third party in regard of this report framework.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017

(All amounts in MNT thousands)

ITEMS	Notes	2017.12.31	2016.12.31
ASSETS			
Current assets			
Cash and cash equivalents	5.1.	5,811,226.0	3,610,491.0
Trade and non-trade receivables	5.2.	2,483,398.0	2,397,530.0
Tax receivables	5.13.	14,826.0	111.0
Short-term loans	5.3.	7,871,822.0	4,378,686.0
Short-term investments	5.5.	2,908,681.0	1,005,045.0
Inventories	5.15.	41,991.0	64,731.0
Prepaid expense	5.14.	1,664,551.0	829,465.0
Assets held for sale	5.16.	1,626,929.0	3,097,600.0
Total current assets		22,423,424.0	15,383,659.0
Non-current assets			
Property, plant and equipment – net	5.17.	3,065,520.0	1,365,479.0
Intangible assets – net	5.18.	276,589.0	52,416.0
Immovable properties held as investment	5.19.		1,894,933.0
Goodwill	5.20.	6,187,485.0	5,488,569.0
Long-term loans	5.4.	1,893,162.0	5,038,698.0
Held-to-maturity financial assets	5.6.		821,781.0
Available-for-sale financial assets	5.7.	4,174,170.0	1,230,413.0
Investments in subsidiaries	5.8.	11,252,935.0	7,925,538.0
Total non-current assets		26,849,861.0	23,817,827.0
TOTAL ASSETS		49,273,285.0	39,201,486.0

LIABILITIES			
Short-term liabilities			
Trade and non-trade payables	5.9.	6,963,449.0	3,633,347.0
Loans from banks and financial institutions	5.12.	1,580,072.0	1,172,740.0
Finance lease payables	5.11.	34,471.0	31,326.0
Tax payables	5.13.	242,091.0	224,591.0
Reserve payables	5.22.	1,023,396.0	701,929.0
Unearned revenue	5.21.	3,996,100.0	3,021,361.0
Total short-term liabilities		13,839,579.0	8,785,294.0
Long-term liabilities			
Loans from banks and financial institutions	5.12.	60,347.0	200,000.0
Finance lease payables	5.11.	87,907.0	110,127.0
Bond payables	5.10.	4,484,783.0	
Deferred income tax payables	5.23.	64,328.0	56,038.0
Reserve payables	5.22.	641,253.0	641,253.0
Total long-term liabilities		5,338,618.0	1,007,418.0
TOTAL LIABILITIES		19,178,197.0	9,792,712.0
EQUITY			
Share capital	5.24.	1,879,653.0	1,879,653.0
Treasury stock	5.24.	(532,287.0)	(471,579.0)
Paid-in capital	5.24.	2,835,451.0	4,255,666.0
Other equity instruments	5.24.	13,799.0	13,799.0
Non-controlling interest	5.25.	966,542.0	1,058,351.0
Retained earnings	5.24.	24,931,930.0	22,672,884.0
Total equity		30,095,088.0	29,408,774.0
TOTAL LIABILITIES AND EQUITY		49,273,285.0	39,201,486.0



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As of December 31, 2017

(All amount in MNT thousands)

ITEMS	Notes	2017.12.31	2016.12.31
Sales revenue	5.26.	9,540,892.0	16,985,596.0
Cost of goods sold	5.27.	(4,364,426.0)	(2,795,158.0)
Gross profit (loss)		5,176,466.0	14,190,438.0
Lease income	5.28.	117,065.0	17,401.0
Interest income	5.31.	1,679,710.0	1,136,891.0
Other income	5.28.	781,108.0	134,516.0
Salary and salary equivalent expense	5.29.	(2,826,719.0)	(2,576,487.0)
General administrative expense	5.30.	(3,237,011.0)	(3,399,495.0)
Interest expense	5.31.	(359,091.0)	(113,239.0)
Other expense	5.32.	(464,710.0)	(375,864.0)
Operating profit (loss)		866,818.0	9,014,161.0
Gain (loss) on foreign currency translation differences	5.31.	(197,595.0)	593,300.0
Gain (loss) on disposal of property, plant and equipment	5.33.	103,077.0	(201,176.0)
Gain (loss) on disposal of intangible assets			
Gain (loss) on sale of investments	5.33.	2,355,382.0	1,376.0
Other gain (loss)			
Profit (loss) before tax		3,127,682.0	9,407,661.0
Current income tax expense	5.34.	(319,554.0)	(230,000.0)
Profit (loss) after tax		2,808,128.0	9,177,661.0
Non-controlling interest expense	5.35.	(176,573.0)	(136,916.0)
Net profit of the group		2,631,555.0	9,040,745.0



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As of December 31, 2017

Indicator	Share capital	Paid-in capital	Treasury stock	Paid-in capital	Retained earnings	Other equity instruments	Non-controlling interest	Total
Balance at 31 December 2015	1,879,653.0	10,400,013.0	(522,791.0)	(5,547,966.0)	13,658,043.0	13,799.0	2,489,496.0	22,370,247.0
Error					(25,904.0)			(25,904.0)
Issued treasury stock			(311,363.0)	(5,673,395.0)				(5,984,758.0)
Offered treasury stock			362,575.0	5,077,014.0				5,439,589.0
Increased by merger							(1,568,061.0)	(1,568,061.0)
Profit for the year					9,040,745.0		136,916.0	9,177,661.0
Balance at 31 December 2016	1,879,653.0	10,400,013.0	(471,579.0)	(6,144,347.0)	22,672,884.0	13,799.0	1,058,351.0	29,408,774.0
Error							296,743.0	296,743.0
Issued treasury stock			(219,497.0)	(4,636,671.0)				(4,856,167.0)
Offered treasury stock			158,789.0	1,966,382.0				2,125,172.0
Purchased from non-controlling interest							(520,979.0)	(520,979.0)
Profit for the year					2,631,555.0		176,573.0	2,808,128.0
Issued dividends							(44,667.0)	(44,667.0)
of JINST UVS JSC					7,327.0		521.0	7,848.0
Disposal from ALTAN HOROM-SOG					27,067.0			27,067.0
Other adjustments				1,250,074.0	(406,904.0)			843,170.0
Balance at 31 December 2017	1,879,653.0	10,400,013.0	(532,287.0)	(7,564,562.0)	24,931,930.0	13,799.0	966,542.0	30,095,088.0

CONSOLIDATED STATEMENT OF CASH FLOW

As of December 31, 2017

(All amounts in MNT thousands)

ITEMS	2017.12.31	2016.12.31
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before tax	3,127,682.0	9,407,661.0
Adjustments for:		
Depreciation expense	357,620.0	237,841.0
Non-controlling interest expense	(371,654.0)	(394,126.0)
Interest revenue	(3,185,919.0)	(1,610,034.0)
Interest expense	1,172,560.0	113,239.0
Non-monetary compensation expense	20,016.0	
Gain (loss) on foreign currency translation	(13,001.0)	(593,300.0)
Gain (loss) on sale of property, plant and equipment	(97,839.0)	
Gain on sale of investment	(524,039.0)	(7,205,197.0)
Loss on sale of investment	10,879.0	
Debt risk reserve expense	7,823.0	
Loan risk reserve expense	132,768.0	131,478.0
Bad debt risk reserve expense	73,170.0	3,099.0
Adjustment for fair value of financial assets	(369,182.0)	
Gain (loss) on disposal of property, plant and equipment	(1,480.0)	264,641.0
Other non-monetary revenue	(251,486.0)	
Cash expense used in operating activities	87,917.0	355,302.0
Increase (decrease) in inventories	(117,785.0)	(33,218.0)
Increase (decrease) in prepaid expense	(3,627,233.0)	(212,516.0)
Increase (decrease) in trade and non-trade receivables	(3,376,075.0)	9,082,800.0
Increase (decrease) in trade and non-trade payables	1,318,012.0	(7,383,071.0)

Other changes	(176,047.0)	(142,071.0)
Cash income generated from operating activities	(5,891,211.0)	1,667,226.0
Interest paid	(42,241.0)	(164,643.0)
Income tax paid	(154,252.0)	(167,012.0)
Interest paid in cash	2,131,002.0	1,575,978.0
Cash flows from operating activities – net	(3,956,703.0)	2,911,549.0
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(271,679.0)	(1,063,434.0)
Proceeds from sale of property, plant and equipment and intangible assets	221,816.0	555,848.0
Proceeds from sale of equity investments	7,935,263.0	146,872.0
Acquisition of equity investments	(7,730,127.0)	(6,071,707.0)
Loans to borrowers	(453,618.0)	(3,269,258.0)
Repayment of loans to borrowers	401,823.0	907,329.0
Cash flows from investing activities - net	103,480.0	(8,794,350.0)
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Issued share capital		3,083,009.0
Issued bonds	1,743,000.0	
Repayment of issued bonds	(25,000.0)	
Loans from banks and financial institutions	7,811,218.0	1,740,650.0
Repayment of loans from banks and financial institutions	(3,418,691.0)	(1,247,858.0)
Issued dividends	(152,200.0)	
Non-controlling interest	(1,552.0)	(1,568,060.0)
Cash flows from financing activities – net	5,956,776.0	2,007,741.0
Changes in currency exchange rate – net	97,181.0	
Cash flows – net	2,200,735.0	(3,875,060.0)
Cash and cash equivalents at 1 January	3,610,491.0	7,485,551.0
Cash and cash equivalents at 31 December	5,811,226.0	3,610,491.0



STATEMENT OF FINANCIAL POSITION

As of December 31, 2017

(All amount in MNT thousands)

Items	Notes	2017.12.31.	2016.12.31.
ASSETS			
Current assets			
Cash and cash equivalents	5.1	689,066.4	166,192.2
Trade and other receivables	5.2	4,784,621.0	4,398,467.1
Long-term loan receivables	5.2	2,015,297.7	5,151,485.4
Short-term loan receivables	5.2	470,036.1	159,298.5
Short-term investments	5.3	107,539.5	49,695.2
Tax receivables	5.7	14,726.0	95.2
Inventories	5.9	23,175.5	31,718.5
Prepaid expense	5.8	423,914.0	179,438.9
Assets held for sale	5.4	1,220,000.0	3,000,000.0
Total current assets		9,748,376.2	13,136,391.0
Non-current assets			
Property, plant and equipment - net	5.10	627,821.1	676,748.5
Intangible assets - net	5.11	246,216.5	17,560.7
Equity instruments	5.5	39,033,912.6	25,561,668.3
Total non-current assets		39,907,950.2	26,255,977.5
TOTAL ASSETS		49,656,326.3	39,392,368.2
LIABILITIES			
Short-term liabilities			
Trade and other payables	5.6	1,300,720.0	766,981.4
Short-term loan payables	5.6	1,080,072.9	742,334.7
Current income tax payables	5.7	67,354.4	84,573.8
Unearned revenue	5.7	22,032.0	-

Total short-term liabilities		2,470,179.3	1,593,889.7
Long-term liabilities			
Long-term loans	5.6	2,781,782.5	-
Deferred income tax payables	5.12	1,292,210.5	352,511.6
Total long-term liabilities		4,073,993.0	352,511.6
TOTAL LIABILITIES		6,544,172.3	1,946,401.3
EQUITY			
Share capital	5.13	1,879,652.8	1,879,652.8
Treasury stock	5.13	(160,216.4)	(160,216.4)
Paid-in capital	5.13	9,929,060.7	9,929,060.7
Fair value reserve	5.13	7,350,220.9	2,707,838.6
Other equity instruments	5.13	13,799.1	13,799.1
Retained earnings	5.13	24,099,636.9	23,075,832.2
TOTAL EQUITY		43,112,154.0	37,445,967.0
TOTAL LAIBILITIES AND EQUITY		49,656,326.3	39,392,368.3



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As of December 31, 2017

(All amounts in MNT thousands)

Items	Notes	2017.12.31	2016.12.31
Sales revenue	5.15	2,088,000.0	11,795,101.6
Cost of goods sold		-	(10,013,092.4)
Gross profit (loss)		2,088,000.0	1,782,009.2
Sales and marketing expense	5.16	(201,182.3)	(135,270.0)
General administrative expense	5.17	(1,561,686.3)	(986,380.5)
Employee related expense	5.17	(565,232.3)	(564,232.9)
Other expense	5.17	(10,339.3)	
Operating profit (loss)		(250,440.1)	96,125.8
Non-operating income (expense)	5.16	645,854.2	89,418.4
Finance income (costs) - net	5.14	735,668.1	842,420.1
Other gain (loss)		-	(3,099.5)
Profit (loss) before tax		1,131,082.2	846,028.0
Income tax expense	5.18	(107,277.6)	(100,042.0)
Profit (loss) for the year – net		1,023,804.6	745,986.0
Other comprehensive income			
Change in value of investments at fair value		5,500,841.0	3,010,452.0
Deferred tax expense		(858,458.7)	(302,613.0)
Other gain (loss)			
Total comprehensive income		5,666,186.9	3,453,825.0
Earnings per share		60.54	44.05



STATEMENT OF CHANGES IN EQUITY

As of December 31, 2017

Items	Share capital	Treasury stock	Treasure stock premium	Paid-in capital	Fair value reserve	Retained earnings	Other equity instruments	Total equity
Share capital		(160,216.4)	(512,083.5)	10,441,144.0	-	22,343,804.9	13,799.1	34,006,100.9
Treasury stock								
Treasure stock premium		(160,216.4)	(512,083.5)	10,441,144.0	-	22,343,804.9	13,799.1	34,006,100.9
Paid-in capital	Fair value reserve	Retained earnings	Other equity instruments	Total equity		745,986.0		745,986.0
Balance at 31 December 2015	1,879,652.8	(160,216.4)	(512,083.5)	10,441,144.0	-	22,343,804.9	13,799.1	34,006,100.9
Impact of change in accounting policy								
Restated balance	1,879,652.8	(160,216.4)	(512,083.5)	10,441,144.0	-	22,343,804.9	13,799.1	34,006,100.9
Profit (loss) for the year, as restated						745,986.0		745,986.0
Increase (decrease) in fair value revaluation reserve					2,707,838.6			2,707,838.6
Error						(13,958.0)		(13,958.0)
Balance at 31 December 2016	1,879,652.8	(160,216.4)	(512,083.5)	10,441,144.0	2,707,838.6	23,075,832.9	13,799.1	37,445,967.5
Impact of change in accounting policy								
Restated balance	1,879,652.8	(160,216.4)	(512,083.5)	10,441,144.0	2,707,838.6	23,075,832.9	13,799.1	37,445,967.5
Profit (loss) for the year, as restated						1,023,804.6		1,023,804.6
Increase (decrease) in fair value revaluation reserve					4,642,381.9			4,642,381.9
Balance at 31 December 2017	1,879,652.8	(160,216.4)	(512,083.5)	10,441,144.0	7,350,220.5	24,099,637.5	13,799.1	43,112,154.0

STATEMENT OF CASH FLOW

As of December 31, 2017

(All amounts in MNT thousands)

Items	2017.12.31	2016.12.31
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before tax	1,131,082.2	846,028.0
Adjustments for:		
Depreciation expense	206,914.6	141,598.0
Interest revenue	(529,601.7)	(478,909.0)
Interest expense	394,026.1	107,809.0
Gain (loss) on foreign currency translation	(12,271.7)	(89,186.0)
Gain on sale of investments	(524,039.6)	-
Loss on sale of investment	10,879.2	-
Bad debts expense	135.1	-
Loss on disposal of property, plant and equipment	11,367.0	(1,490.0)
Cash expense used in operating activities	688,491.1	525,850.0
Increase (decrease) in inventories	8,542.9	(26,163.0)
Increase (decrease) in prepaid expense	(43,568.2)	74,403.0
Increase (decrease) in trade and other receivables	(3,043,261.4)	10,805,792.0
Increase (decrease) in trade and other payables	150,017.1	(5,750,478.0)
Cash income generated from operating activities	(2,239,778.5)	5,629,404.0
Interest paid	543,595.1	478,909.0
Income tax paid	(73,775.3)	(57,945.0)
Interest paid in cash	(412,263.8)	(79,759.0)

Cash flows from operating activities – net	(2,182,222.4)	5,970,609.0
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(17,074.3)	(10,475.0)
Acquisition of intangible assets	-	(15,386.0)
Proceeds from sale of equity investments	40,000.0	-
Acquisition of equity investments	(179,795.0)	(5,021,643.0)
Loans to borrowers	(453,617.6)	(4,638,553.0)
Repayment of loans to borrowers	401,823.4	1,781,523.0
Cash flows from investing activities – net	(208,663.5)	(7,904,534.0)
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Loans from lenders	4,022,821.7	1,760,000.0
Repayment of loans from lenders	(1,198,951.9)	1,018,271.0
Cash flows from financing activities – net	2,823,869.8	741,729.0
Changes in currency exchange rate – net	522,873.0	30,268.0
Cash flows – net	89,889.8	(1,161,928.0)
Cash and cash equivalents at 1 January	166,192.0	1,328,120.0
Cash and cash equivalents at 31 December	689,065.6	166,192.0

