

**Azerpost Limited Liability Company**

**International Financial Reporting Standards  
Financial Statements and  
Independent Auditor's Report**

**31 December 2018**

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## *Independent Auditor's Report*

To the Owner and the Management of Azerpost LLC:

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### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Azerpost LLC (the "Company") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **What we have audited**

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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

### **Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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### *Responsibilities of management and those charged with governance for the financial statements*

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## *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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

*PricewaterhouseCoopers Audit Azerbaijan LLC*

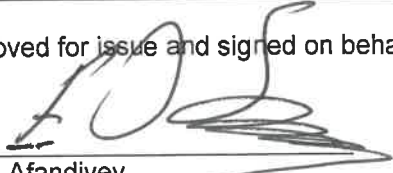
30 August 2019

Baku, the Republic of Azerbaijan

**Azerpost Limited Liability Company**  
**Statement of Financial Position**

<i>In Azerbaijani Manats</i>	Note	31 December 2018	31 December 2017
<b>Assets</b>			
Property, plant and equipment	7	52,424,174	54,564,414
Intangible assets	8	1,186,827	1,572,174
Prepayments for non-current assets	9	862,921	961,171
<b>Total non-current assets</b>		<b>54,473,922</b>	<b>57,097,759</b>
Cash and cash equivalents	13	75,920,276	42,294,239
Trade and other receivables	12	14,798,387	14,534,407
Inventory	11	1,766,201	1,208,311
Deferred tax asset	10	173,648	-
Other assets		32,340	93,234
<b>Total current assets</b>		<b>92,690,852</b>	<b>58,130,191</b>
<b>TOTAL ASSETS</b>		<b>147,164,774</b>	<b>115,227,950</b>
<b>Equity</b>			
Charter capital	14	73,344,500	73,344,500
Other reserves		56,717	68,110
Accumulated deficit		(16,908,915)	(15,369,872)
<b>Total equity</b>		<b>56,492,302</b>	<b>58,042,738</b>
<b>Liabilities</b>			
Borrowings	15	13,479,177	14,273,191
<b>Total non-current liabilities</b>		<b>13,479,177</b>	<b>14,273,191</b>
Trade and other payables	16	26,577,469	19,622,262
Customer accounts	17	49,884,398	22,475,106
Borrowings	15	731,428	813,143
Deferred income		-	1,510
<b>Total current liabilities</b>		<b>77,193,295</b>	<b>42,912,021</b>
<b>Total liabilities</b>		<b>90,672,472</b>	<b>57,185,212</b>
<b>Total equity and liabilities</b>		<b>147,164,774</b>	<b>115,227,950</b>

Approved for issue and signed on behalf of the Management on 30 August 2019.

  
Emin Afandiyev  
General Director



  
Museyib Aliyev  
Chief Financial Officer

**Azerpost Limited Liability Company**  
**Statement of Profit or Loss and Other Comprehensive Income**

<i>In Azerbaijani Manats</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Revenue	18	45,622,247	46,010,818
Cost of services	20	(29,501,218)	(28,382,756)
<b>Gross profit</b>		<b>16,121,029</b>	<b>17,628,062</b>
Other operating income	19	1,039,348	2,412,014
Operating expenses	21	(18,055,308)	(17,593,573)
<b>Operating (loss)/profit</b>		<b>(894,931)</b>	<b>2,446,503</b>
Foreign exchange losses less gains		(298,387)	(126,911)
Finance income/(costs)	22	(9,741)	632,233
<b>(Loss)/ Profit before income tax</b>		<b>(1,203,059)</b>	<b>2,951,825</b>
Income tax credit	10	47,218	-
<b>Net (Loss)/ Profit for the year</b>		<b>(1,155,841)</b>	<b>2,951,825</b>

The notes set out on pages 5-34 form an integral part of these financial statement

**Azerpost Limited Liability Company**  
**Statement of Changes in Equity**

<i>In Azerbaijani Manats</i>	Charter capital	Other reserves	Accumulated deficit	Total Equity
<b>Balance at 1 January 2017</b>	<b>73,344,500</b>	<b>379,954</b>	<b>(18,321,697)</b>	<b>55,402,757</b>
Profit for the year	-	-	2,951,825	2,951,825
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>2,951,825</b>	<b>2,951,825</b>
Other distributions	-	(311,844)	-	(311,844)
<b>Balance at 31 December 2017</b>	<b>73,344,500</b>	<b>68,110</b>	<b>(15,369,872)</b>	<b>58,042,738</b>
Adoption of IFRS 9: - remeasurement of expected credit losses	-	-	(383,202)	(383,202)
<b>Balance at 1 January 2018</b>	<b>73,344,500</b>	<b>68,110</b>	<b>(15,753,074)</b>	<b>57,659,536</b>
Loss for the year	-	-	(1,155,841)	(1,155,841)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(1,155,841)</b>	<b>(1,155,841)</b>
Other distributions	-	(11,393)	-	(11,393)
<b>Balance at 31 December 2018</b>	<b>73,344,500</b>	<b>56,717</b>	<b>(16,908,915)</b>	<b>56,492,302</b>

**Azerpost Limited Liability Company**  
**Statement of Cash Flows**

<i>In Azerbaijani Manats</i>	Note	2018	2017
<b>Cash flows from operating activities</b>			
(Loss)/Profit before income tax		(1,203,059)	2,951,825
Adjustments for:			
Depreciation of property, plant and equipment	7	6,288,502	6,121,286
Amortisation of intangible assets	8	403,323	310,001
Impairment of trade and other receivables	12,21	498,175	287,870
Impairment of prepayments for non-current assets	21	59,158	-
Impairment of property, plant and equipment	7,21	280,662	-
Finance costs/(income)	22	9,741	(632,233)
Foreign exchange translation differences		298,387	126,911
<b>Operating cash flows before working capital changes</b>		<b>6,634,889</b>	<b>9,165,660</b>
Increase in trade and other receivables		(976,868)	(1,961,288)
Decrease/(increase) in inventories		(557,890)	616,387
(Increase)/decrease in other current assets		60,893	(56,454)
Increase/(decrease) in trade and other payables		6,614,774	4,656,888
Increase in customer accounts		27,404,338	8,591,341
<b>Changes in working capital</b>		<b>32,545,247</b>	<b>11,846,874</b>
Interest paid		(10,628)	(28,797)
<b>Net cash from operating activities</b>		<b>39,169,508</b>	<b>20,983,737</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(4,356,801)	(5,482,980)
Purchases of intangible assets	8	(17,976)	(92,292)
<b>Net cash used in investing activities</b>		<b>(4,374,777)</b>	<b>(5,575,272)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(874,840)	(845,738)
Other distributions		(44,424)	(311,844)
<b>Net cash used in financing activities</b>		<b>(919,264)</b>	<b>(1,157,582)</b>
Effect of exchange rate changes on cash and cash equivalents		(249,430)	(254,000)
<b>Cash and cash equivalents at the beginning of the year</b>	13	<b>42,294,239</b>	<b>28,297,356</b>
<b>Cash and cash equivalents at the end of the year</b>	13	<b>75,920,276</b>	<b>42,294,239</b>

The notes set out on pages 5-34 form an integral part of these financial statement



## **1 Azerpost LLC and its Operations**

"Azerpost" Limited Liability Company (the Company), formerly the Azerpost State Enterprise, is the national postal operator of the Republic of Azerbaijan, established by the order 151 of the Ministry of Transport, Communications and High Technologies of the Republic of Azerbaijan (the "MTCHT") dated 23 September 1999.

Activities of the Company are regulated by the law on Postal Activity of the Republic of Azerbaijan.

The Company's registered address is 36 Uzeyir Hajibeyov str., AZ 1000, Baku, Azerbaijan.

The Company has 63 Postal Branches, 7 Regional Communication Junctions and 4 branches which provide express postal services, delivery parcels/bundles locally and internationally and special courier services to government bodies. The Company employed more than 5,000 employees.

In addition to traditional postal services, such as mail and parcel delivery, the Company has introduced a number of products and services in order to broaden its revenue base and improve financial viability. These include:

1. Payment services, including pensions and social security payments and other payments to or from government authorities
2. Collection services for utilities and similar payments
3. Domestic and international money transfers
4. Business services, including the provision of access to telephones for inter-city calls, fax and copying services
5. Sales, including sim-cards and newspapers in addition to traditional postage stamps.

The Company is wholly owned by the government of the Republic of Azerbaijan through the State Committee on Property Issues of the Republic of Azerbaijan (the "SCPI") with 100% ownership.

**Presentation currency.** The financial statements are presented in Azerbaijani Manats ("AZN"), except otherwise indicated.

## **2 Operating Environment of the Company**

**The Republic of Azerbaijan.** During 2018, the Republic of Azerbaijan displayed macroeconomic processes of an emerging market. Economic reforms undertaken by government have made a significant contribution to the economic sustainability of Azerbaijan. The monetary policy of the Central Bank of the Republic of Azerbaijan in 2018 was oriented towards achievement of price stability and shaping a favorable socio-economic environment for people and business activity by maintaining low and stable inflation.

During the year, inflation was stable at a low single-digit rate, the economic growth remained positively zoned, the exchange rate of the national currency was sustainable, positive trends emerged in the foreign sector, balance of payments surplus contributed to the increased strategic foreign currency reserves of the country.

Significant measures have been taken in taxation as well. To ensure more operative and transparent tax system many amendments were made to the Tax Code. As a result of enacted Law on amendments to the Tax Code signed in 2018, plenty of incentives were introduced to the Tax Code, such as exemptions for small and medium entrepreneurship, reduced tax rate introduced for the income of employees who are engaged to the employment in non-oil-gas and non-government for 7 years period, etc.

In January 2019, Standard & Poor's Financial Services LLC, international credit rating agency, affirmed the long and short-term foreign and local currency sovereign credit ratings on Azerbaijan at 'BB+/B'. The outlook on the long-term ratings is stable. The agency forecasts that Azerbaijan's economic growth will recover moderately but will still remain dependent on oil industry trends and public investments.

The Company's management observes these developments related to the economic environment and takes precautionary measures as it considers necessary in order to support the sustainable development of the Company's strategy. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

### **3 Significant Accounting Policies**

**Basis of preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of financial instruments categorised at fair value through profit or loss (“FVTPL”). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Notes 5 and 28).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

**Foreign currency translation.** The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional and the presentation currency of the Company is the national currency of the Azerbaijan Republic, Azerbaijani Manats (“AZN”). The financial statements are presented in Azerbaijani Manats (“AZN”), which is the Company’s presentation currency.

**Transactions and balances.** Monetary assets and liabilities are translated into the Company’s functional currency at the official exchange rate of the Central Bank of the Azerbaijan Republic (“CBAR”) at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Company’s functional currency at year-end official exchange rates of the CBAR are recognized in profit or loss. Foreign exchange gains and losses that relate to borrowings are presented in the income statement within “Finance income/(costs)”. All other foreign exchange gains and losses are presented in the income statement under ‘Foreign exchange losses less gains’. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

AZN is not a fully convertible currency outside the territory of the Republic of Azerbaijan. Within the Republic of Azerbaijan, official exchange rates are determined daily by the CBAR. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBAR. The Company used the following official exchange rates in the preparation of these financial statements: 1 USD to AZN was 1.7000 at 31 December 2018 (2017: 1.7001); 1 EUR to AZN was 1.9468 at 31 December 2018 (2017: 2.0307); 1 RUB to AZN was 0.0245 at 31 December 2018 (2017: 0.0295), and 1 SDR to AZN was 2.3573 at 31 December 2018 (2017: 2.4153).

**Property, plant and equipment.** Plant and equipment is stated at cost less accumulated depreciation and provision for impairment, where required. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Any gain or loss arising on de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the net asset) is included in profit or loss in the year in which the asset is derecognized.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

### **3 Significant Accounting Policies (Continued)**

Assets are depreciated when placed into service. Depreciation is provided using the reducing balance method over the estimated useful lives of the related assets in accordance with below rates:

Buildings	3–7%
Machinery & equipment	10–25%
Vehicles	10–25%
Others	10–20%

The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**Intangible assets.** The Company's intangible assets have definite useful lives and primarily include capitalised computer software. Intangible assets are carried at cost less accumulated amortisation and impairment losses. Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on straight line basis over the estimated useful lives (10 years) of intangible assets.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

**Leased assets.** Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognized on the Company's statement of financial position.

**Inventories.** Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined on the weighted average basis. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

**Financial instruments - key measurement terms.** Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the Company. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy, if any, are deemed to have occurred at the end of the reporting period.

### **3 Significant Accounting Policies (Continued)**

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost ("AC")* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("*ECL*"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Financial instruments – initial recognition.*** Financial instruments at FVTPL, if any, are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC.

***Financial assets – classification and subsequent measurement.*** The Company classifies and measures financial assets at AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Company manages the assets in order to generate cash flows. The Company's objective is solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows").

Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Currently, the Company does not have financial assets at FVTPL or FVOCI.

***Financial assets – reclassification.*** Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

***Financial assets impairment – credit loss allowance for ECL.*** The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Company measures ECL and recognises credit loss allowance at each reporting date.

### **3 Significant Accounting Policies (Continued)**

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables has been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. For detailed information on ECL calculations results and staging refer to Note 26.

**Financial assets – write-off.** Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

**Derecognition of financial assets.** The Company derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Company has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Company has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Impairment of non-financial assets.** Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

**Financial liabilities – measurement categories.** The Company's financial liabilities are measured at AC and are comprised of 'trade and other payables', 'customer accounts', and 'borrowings' in the statement of financial position.

**Financial liabilities – derecognition.** Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

### **3 Significant Accounting Policies (Continued)**

**Offsetting financial instruments.** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

**Cash and cash equivalents.** Cash and cash equivalents include cash on hand, cash in transit, cash in ATM and nostro accounts with the CBAR and other banks. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

**Trade and other receivables.** Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

**Prepayments.** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

**Trade and other payables.** Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

**Borrowings.** Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at AC using the effective interest method.

**Share capital and other reserves.** Share capital consists of only ordinary shares of the Company. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The Government of the Republic of Azerbaijan is providing funding to the operations of the Company in the form of capital contributions, which are recognised in the Company's statement of changes in equity at the fair value on the date of payment.

**Revenue recognition.** Revenue is income arising in the course of the Company's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of discounts, returns and value added taxes.

**Sales of goods.** Sales are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made either with advance payment or a credit term of 30 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

### **3 Significant Accounting Policies (Continued).**

**Sales of services.** The Company provides services under fixed-price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset is recognised.

If the payments exceed the services rendered, a contract liability is recognised.

**Operating expenses.** Operating expenses include expenses directly related to the Company's business activities such as remuneration of post office employees, maintenance of postal equipment, supplies etc. and are recognized as incurred.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised

in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Value added tax.** Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

**Finance income and costs.** Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and impairment losses recognized on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

### **3 Significant Accounting Policies (Continued)**

**Employee benefits.** Wages, salaries, contributions to the Republic of Azerbaijan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

**Government Grants.** Government grants are recognized when there is reasonable assurance that the grants will be received and all attached conditions will be complied with and are directly credited to equity or income as appropriate.

**Contingencies.** Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when as inflow of economic benefits is probable.

### **4 Critical Accounting Estimates and Judgements in Applying Accounting Policies**

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Useful lives of property, plant and equipment.** The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

**ECL measurement.** Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 27. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.



#### 4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

**Deferred income tax asset recognition.** The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium-term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

**Going concern.** Management prepared these financial statements on a going concern basis. In making this judgement management considered the Company's strategic nature, current intentions, positive operating cash flows and access to financial resources, and analysed the impact of the macro-economic developments on the operations of the Company.

#### 5 Adoption of New or Revised Standards and Interpretations

**Adoption of IFRS 9 "Financial Instruments".** The entity adopted IFRS 9, Financial Instruments, from 1 January 2018. The Company elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 28.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018:

	Measurement category		Carrying value under IAS 39 – 31 December 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 - 1 January 2018
	IAS 39	IFRS 9		Reclassification		Remeasurement		
				Mandatory	Voluntary	ECL	Other	
<b>Cash and cash equivalents</b>	L&R	AC	42,294,239	-	-	-	-	42,294,239
<b>Trade and other receivables</b>	L&R	AC	12,319,190	-	-	(383,202)	-	11,935,988

**Adoption of IFRS 15 "Revenue from Contracts with Customers".** The Company applied simplified method of transition to IFRS 15 and elected to apply the practical expedient available for simplified transition method. The Company applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 did not result in changes in accounting policies and adjustments to the financial statements.

The following amended standards became effective for the Company from 1 January 2018, but did not have any material impact on the Company:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the Company first applies IFRS 9 for entities that choose to apply the overlay approach).

## **5 Adoption of New or Revised Standards and Interpretations (Continued)**

- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – “Transfers of Investment Property” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

## **6 New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Company has not early adopted.

**IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).** The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income.

The Company decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives.

Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses). The Company is currently assessing the impact of the amendments on its financial statements.

**IFRS 17 “Insurance Contracts” (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies.

IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company does not expect impact of the amendments on its financial statements.

**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company does not expect impact of the amendments on its financial statements.

## **6 New Accounting Pronouncements (Continued).**

**IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).** IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate.

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company does not expect impact of the amendments on its financial statements.

**Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).** The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Company is currently assessing impact of the amendments on its financial statements.

**Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)** The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing impact of the amendments on its financial statements.

**Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)** The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Company does not expect impact of the amendments on its financial statements.

**6 New Accounting Pronouncements (Continued).**

**Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

**Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).** The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Company does not expect impact of the amendments on its financial statements.

**Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and amendments are not expected to affect significantly the Company's financial statements.

**Azerpost Limited Liability Company**  
**Notes to the Financial Statements – 31 December 2018**

**7 Property, Plant and Equipment**

*In Azerbaijani Manats*

	Buildings and facilities	Computers and equipment	Furniture & Fixtures	Vehicles	Other	Construction in progress	Total
Cost at 1 January 2017	53,988,452	14,398,716	7,342,930	4,701,292	108,534	708,141	81,248,065
Accumulated depreciation and impairment	(11,870,288)	(7,537,539)	(4,249,214)	(2,892,034)	(66,270)	-	(26,615,345)
<b>Carrying amount at 1 January 2017</b>	<b>42,118,164</b>	<b>6,861,177</b>	<b>3,093,716</b>	<b>1,809,258</b>	<b>42,264</b>	<b>708,141</b>	<b>54,632,720</b>
Additions	2,155,591	1,932,400	550,677	1,044,631	-	369,681	6,052,980
Transfers	512,879	-	-	-	-	(512,879)	-
Disposals	(10,373)	(205,458)	(190,147)	(21,196)	(3,317)	-	(430,491)
Depreciation charge	(3,022,658)	(1,688,734)	(881,745)	(510,735)	(17,414)	-	(6,121,286)
Accumulated depreciation of disposals	10,373	205,458	190,147	21,196	3,317	-	430,491
<b>Carrying amount at 31 December 2017</b>	<b>41,763,976</b>	<b>7,104,843</b>	<b>2,762,648</b>	<b>2,343,154</b>	<b>24,850</b>	<b>564,943</b>	<b>54,564,414</b>
Cost at 31 December 2017	56,646,549	16,125,658	7,703,460	5,724,727	105,217	564,943	86,870,554
Accumulated depreciation and impairment	(14,882,573)	(9,020,815)	(4,940,812)	(3,381,573)	(80,367)	-	(32,306,140)
<b>Carrying amount at 31 December 2017</b>	<b>41,763,976</b>	<b>7,104,843</b>	<b>2,762,648</b>	<b>2,343,154</b>	<b>24,850</b>	<b>564,943</b>	<b>54,564,414</b>
Additions	1,237,296	1,241,745	218,513	1,350,414	9,814	459,952	4,517,734
Transfers	220,403	-	-	-	-	(220,403)	-
Disposals	(165,285)	(144,713)	(141,386)	(123,968)	-	-	(575,352)
Depreciation charge	(3,059,996)	(1,837,923)	(625,197)	(757,474)	(7,912)	-	(6,288,502)
Impairment charge to profit or loss	(154,353)	(33,155)	(93,154)	-	-	-	(280,662)
Accumulated depreciation and impairment of disposals	164,748	144,713	135,017	42,064	-	-	486,542
<b>Carrying amount at 31 December 2018</b>	<b>40,006,789</b>	<b>6,475,510</b>	<b>2,256,441</b>	<b>2,854,190</b>	<b>26,752</b>	<b>804,492</b>	<b>52,424,174</b>
Cost at 31 December 2018	57,784,610	17,189,535	7,687,433	6,951,173	115,031	804,492	90,532,274
Accumulated depreciation and impairment	(17,777,821)	(10,714,025)	(5,430,992)	(4,096,983)	(88,279)	-	(38,108,100)
<b>Carrying amount at 31 December 2018</b>	<b>40,006,789</b>	<b>6,475,510</b>	<b>2,256,441</b>	<b>2,854,190</b>	<b>26,752</b>	<b>804,492</b>	<b>52,424,174</b>

## 7 Property, Plant and Equipment (Continued)

Construction in progress consists of construction of post offices in several cities across the territory of Azerbaijan Republic. Upon completion, assets are transferred to “buildings and facilities”.

Impairment losses of AZN 280,662 were recognised as a result of annual impairment assessment. The whole amount was recognised as operating expense in profit or loss. Refer to Note 21.

## 8 Intangible Assets

<i>In Azerbaijani Manats</i>	<b>Software licences</b>
Cost at 1 January 2017	3,948,162
Accumulated amortisation	(2,158,279)
<b>Carrying amount at 1 January 2017</b>	<b>1,789,883</b>
Additions	92,642
Disposals	(350)
Amortisation charge	(310,001)
<b>Carrying amount at 31 December 2017</b>	<b>1,572,174</b>
Cost at 31 December 2017	4,040,454
Accumulated amortisation	(2,468,280)
<b>Carrying amount at 31 December 2017</b>	<b>1,572,174</b>
Additions	17,976
Disposals	(28,236)
Amortisation charge	(403,323)
Accumulated amortisation of disposals	28,236
<b>Carrying amount at 31 December 2018</b>	<b>1,186,827</b>
Cost at 31 December 2018	4,030,194
Accumulated amortisation	(2,843,367)
<b>Carrying amount at 31 December 2018</b>	<b>1,186,827</b>

## 9 Prepayments for non-current assets

Prepayments for non-current assets represent advance payments in the amount of AZN 862,921 (2017: AZN 961,171) to suppliers for property and equipment and intangible assets.

## 10 Income Tax

### (a) Components of income tax

Income tax credit recorded in profit or loss comprises the following:

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Current tax expense	126,430	-
Deferred tax credit	(173,648)	-
<b>Income tax credit for the year</b>	<b>(47,218)</b>	<b>-</b>

## 10 Income Tax (Continued)

Differences between IFRS and statutory taxation regulations in Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences (charged)/credited to profit or loss is due to AZN 140,158 from trade and other receivables, AZN 41,318 from intangible assets and AZN (7,828) from trade and other payables (No deferred tax asset or liability recognised in 2017).

### **(b) Reconciliation between the tax credit/(expense) and profit or loss multiplied by applicable tax rate**

The Company's applicable tax rate is the income tax rate of 20% for Azerbaijani companies. A reconciliation between the expected and the actual taxation charge is provided below:

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
<b>(Loss)/ Profit before tax</b>	<b>(1,203,060)</b>	<b>2,951,825</b>
Theoretical tax expense at statutory rate of 20%:	(240,612)	590,365
Non-deductible expenses	357,495	577,145
Utilisation of previously unrecognised tax loss carry forwards	(164,101)	(1,386,960)
Unrecognised other potential deferred tax assets	-	219,450
<b>Income tax credit for the year</b>	<b>(47,218)</b>	<b>-</b>

### **(c) Tax loss carry forwards**

The Company has nil unrecognised potential deferred tax assets in respect of unused tax loss carry forwards (2017: 164,101 AZN)

## 11 Inventory

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Goods for resale	528,001	248,686
Raw materials and consumables	1,238,200	959,625
<b>Total inventories</b>	<b>1,766,201</b>	<b>1,208,311</b>

## 12 Trade and Other Receivables

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Trade receivables	13,863,665	12,765,919
Other financial receivables	122,961	174,715
Less credit loss allowance/ impairment provision	(1,442,222)	(621,444)
<b>Total financial assets within trade and other receivables</b>	<b>12,544,404</b>	<b>12,319,190</b>
Other receivables	575,484	344,530
Prepayments	651,778	1,676
Settlements with Millikart	83,825	860,557
VAT recoverable	942,896	1,008,454
<b>Total trade and other receivables</b>	<b>14,798,387</b>	<b>14,534,407</b>

**12 Trade and Other Receivables (Continued)**

Trade receivables of AZN 6,098 thousand (2017: AZN 5,531 thousand) net of impairment loss provisions are denominated in foreign currency.

Non-financial other receivables are shown net of impairment loss provision of AZN 60,599.

VAT recoverable relates to purchases which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT on operations upon payment for the services.

The entity applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 and the corresponding historical credit losses experienced within this period.

Previous periods loss levels are not adjusted in line with the current and forward-looking information on macroeconomic factors, as contractual performance obligations are short-term in nature and an impact of the adjustments is not material.

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due.

In % of gross value	<b>Loss rate</b>	<b>Gross carrying amount</b>	<b>Lifetime ECL</b>
<b>Trade receivables</b>			
- current	2%	11,300,180	278,045
- less than 30 days overdue	32%	408,267	132,502
- 30 to 90 days overdue	49%	1,203,843	332,039
- 91 to 180 days overdue	65%	657,378	424,337
- 181 to 360 days overdue	65%	52,744	34,046
- over 360 days overdue	100%	241,253	241,253
<b>Total trade receivables (gross carrying amount)</b>		<b>13,863,665</b>	
Credit loss allowance		(1,442,222)	
<b>Total trade receivables from contracts with customers (carrying amount)</b>		<b>12,421,443</b>	



**12 Trade and Other Receivables (Continued)**

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

<i>In Azerbaijani Manats</i>	<b>Credit loss allowance</b>
<b>Balance at 31 December 2017 - calculated under IAS 39</b>	<b>(621,444)</b>
Amounts restated through opening retained earnings	(383,202)
<b>Balance at 1 January 2018 - calculated under IFRS 9</b>	<b>(1,004,646)</b>
Increase in credit loss allowance recognised in profit or loss during the year	(437,576)
<b>Balance at 31 December 2018</b>	<b>(1,442,222)</b>

Movements in the impairment provision for trade and other receivables are as follows:

<i>In Azerbaijani Manats</i>	<b>2017</b>	
	<b>Trade receivables</b>	<b>Other financial receivables</b>
<b>Provision for impairment at 1 January</b>	<b>(333,574)</b>	-
Provision for impairment during the year	(287,870)	-
<b>Provision for impairment at 31 December</b>	<b>(621,444)</b>	-

At 31 December 2017, the analysis of trade and other receivables by credit quality is as follows:

<i>In Azerbaijani Manats</i>	<b>2017</b>	
	<b>Trade receivables</b>	<b>Other financial receivables</b>
<i>Neither past due nor impaired – exposure to</i>		
State Agencies	3,624,446	-
Foreign postal operators	5,531,226	-
Large companies	2,639,039	-
Small and medium companies	198,545	174,715
<b>Total neither past due nor impaired</b>	<b>11,993,256</b>	<b>174,715</b>
<i>Individually determined to be impaired (gross)</i>		
- 91 to 180 days overdue	-	-
- 181 to 360 days overdue	44,870	-
- over 360 days overdue	727,793	-
<b>Total individually impaired</b>	<b>772,663</b>	-
<b>Less impairment provision</b>	<b>(621,444)</b>	-
<b>Total</b>	<b>12,144,475</b>	<b>174,715</b>

**13 Cash and Cash Equivalents**

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Cash on hand	13,302,310	12,789,460
Cash in transit	844,930	258,388
Cash in ATM	2,999,327	1,570,503
Cash balances with the CBAR	27,545,882	3,368,628
Correspondent accounts with other banks	31,227,827	24,307,260
<b>Total cash and cash equivalents at 31 December</b>	<b>75,920,276</b>	<b>42,294,239</b>

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to Note 27 for the description of the Company's credit risk grading system:

<i>In Azerbaijani Manats</i>	<b>Bank balances payable on demand</b>
- Excellent	31,198,802
- Good	27,574,907
<b>Total</b>	<b>58,773,709</b>

For the purposes of ECL measurement cash and cash equivalent balances are included in Stage 1. The ECL for those balances represents an insignificant amount, therefore the Company did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 27 for the ECL measurement approach.

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings as follows at 31 December 2017:

<i>In Azerbaijani Manats</i>	<b>2017</b> <b>Bank balances payable on demand</b>
<i>Neither past due nor impaired</i>	
Central Bank of the Azerbaijan Republic	3,368,628
-Baa1	6,246,192
-Baa3	18,039,167
-Ba3	21,901
<b>Total</b>	<b>27,675,888</b>

#### **14 Charter Capital**

The Company's registered charter capital as at 31 December 2018 is AZN 73,344,500 (31 December 2017: AZN 73,344,500).

The Company's ownership structure as of 31 December 2018 and 2017 was as follows:

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State Committee on Property Issues of the Republic of Azerbaijan	100%
<b>TOTAL</b>	<b>100%</b>

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#### **15 Borrowings**

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Term loans	14,210,605	15,086,334
<b>Total borrowings</b>	<b>14,210,605</b>	<b>15,086,334</b>

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The Company's all borrowings are from International Development Association through the MTCHT with an annual interest rate of 0.75% with the maturity of 15 November 2039. The borrowings are denominated in USD. There are no collateral on the borrowings. The borrowings are carried at amortised cost. The fair value of the borrowings equals their carrying amount, as the impact of discounting is not significant.

The Company does not apply hedge accounting for its hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Current and non-current portions of the borrowings are as follows:

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Current portion	731,428	813,143
Non-current portion	13,479,177	14,273,191
<b>Total borrowings</b>	<b>14,210,605</b>	<b>15,086,334</b>

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**15 Borrowings (Continued)**

**Reconciliation of liabilities arising from financing activities**

The table below sets out an analysis of liabilities from financing activities and the movements in the Company's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

<i>In Azerbaijani Manats</i>	<b>Liabilities from financing activities</b>
	<b>Borrowings</b>
<b>Liabilities from financing activities at 1 January 2017</b>	<b>(16,593,102)</b>
Repayment of borrowings	845,738
Foreign exchange adjustments	661,030
<b>Liabilities from financing activities at 31 December 2017</b>	<b>(15,086,334)</b>
Repayment of borrowings	874,842
Foreign exchange adjustments	887
<b>Liabilities from financing activities at 31 December 2018</b>	<b>(14,210,605)</b>

**16 Trade and Other Payables**

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Trade payables	17,822,003	11,280,871
Amount payable to utility service providers	7,707,746	7,279,228
Other payables	874,574	902,067
<b>Total financial payables within trade and other payables</b>	<b>26,404,323</b>	<b>19,462,166</b>
Advances received	173,146	160,096
<b>Total trade and other payables</b>	<b>26,577,469</b>	<b>19,622,262</b>

**17 Customer Accounts**

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
<b>State and public organisations</b>		
- Current/settlement accounts	41,180,683	15,691,015
<b>Other legal entities</b>		
- Current/settlement accounts	4,776,764	2,543,200
<b>Individuals</b>		
- Current/demand accounts	3,926,951	4,240,891
<b>Total customer accounts</b>	<b>49,884,398</b>	<b>22,475,106</b>

## 18 Analysis of Revenue by Category

The Company derives revenue from the transfer of goods and services at a point in time in the following major product lines and geographic regions:

<i>In Azerbaijani Manats</i>	2018	2017
Revenue from domestic sales	30,729,475	31,510,983
Revenue from export sales	14,892,772	14,499,835
<b>Total revenue from contracts with customers</b>	<b>45,622,247</b>	<b>46,010,818</b>

Revenue by major product lines and types of services provided:

<i>In Azerbaijani Manats</i>	2018	2017
Revenue from financial services, including money transfers	11,310,706	12,891,093
Revenue from postal services	14,324,682	13,966,992
Commission from utility and other payments	8,582,417	9,472,967
Sales of stamps and envelopes	5,708,765	5,470,270
Express postal services fees	1,165,472	1,015,847
Courier services	1,102,558	913,731
Telegraph services fees	539,525	515,095
Revenue from technical service and maintenance	3,825	95,356
Sales of payments cards	532	8,992
Other revenues	2,883,765	1,660,475
<b>Total revenue from contracts with customers</b>	<b>45,622,247</b>	<b>46,010,818</b>

## 19 Other Income

<i>In Azerbaijani Manats</i>	2018	2017
Government grant	1,000,000	1,000,000
Other income	39,348	1,412,014
<b>Total other income</b>	<b>1,039,348</b>	<b>2,412,014</b>

## 20 Cost of Services

<i>In Azerbaijani Manats</i>	2018	2017
Staff costs	13,564,318	12,918,932
Distribution and conveyance costs	7,055,006	6,694,308
Depreciation and amortisation	5,011,536	5,234,267
Materials and supplies	1,114,645	1,220,068
Fuel expenses	792,442	659,259
Data processing costs	719,328	596,266
Purchase of post marks	495,278	481,153
Cost of payment cards	105,835	106,056
Other	642,830	472,447
<b>Total cost of services</b>	<b>29,501,218</b>	<b>28,382,756</b>

**21 Operating Expenses**

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Staff costs	9,445,859	9,794,159
Depreciation and amortisation	1,680,289	1,197,020
Professional services	939,140	865,565
Security expense	770,677	691,328
Utilities expense	724,477	722,558
Taxes other than on income tax	611,377	571,958
Impairment of trade and other receivables	498,175	287,870
Bank charges	495,109	612,486
Communication expense	460,202	384,807
Membership fees	377,070	160,647
Rent expenses	333,812	324,541
Business trip expenses	332,287	268,364
Repair and maintenance	304,749	523,461
Impairment of property, plant and equipment	280,662	-
Stationary expense	131,359	379,273
Impairment of prepayments for non-current assets	59,158	-
Other	610,906	809,536
<b>Total operating expenses</b>	<b>18,055,308</b>	<b>17,593,573</b>

**22 Finance income and costs**

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
Interest expenses	(10,628)	(28,797)
Foreign exchange losses less gains from borrowings	887	661,030
<b>Finance income/(costs)</b>	<b>(9,741)</b>	<b>632,233</b>

**23 Balances and Transactions with Related Parties**

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

**Key management compensation.** Key management of the Company includes the General Director, Deputy General Directors, Heads of Departments, Heads of Branches and the Chief Accountant. Key management individuals are entitled to salaries and benefits in accordance with the approved payroll matrix. During 2018, compensation of key management personnel totalled AZN 965,767 (2017: AZN 932,507).

At 31 December 2018, the outstanding balances with related parties were as follows:

<i>In Azerbaijani Manats</i>	<b>Entities under common control</b>
Gross amount of trade and other receivables	2,213,337
ECL	(37,289)
Trade and other payables	2,407,931
Customer accounts	40,234,066

## **23 Balances and Transactions with Related Parties (Continued)**

The income and expense items with related parties for the year ended 31 December 2018 were as follows:

<i>In Azerbaijani Manats</i>	<b>Entities under common control</b>
Revenue from services rendered	1,551,473
Purchases of raw materials and consumables	495,278

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At 31 December 2017, the outstanding balances with related parties were as follows:

<i>In Azerbaijani Manats</i>	<b>Entities under common control</b>
Gross amount of trade and other receivables	965,470
Trade and other payables	884,235
Customer accounts	9,258,172

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The income and expense items with related parties for the year ended 31 December 2017 were as follows:

<i>In Azerbaijani Manats</i>	<b>Entities under common control</b>
Revenue from services rendered	1,993,768
Purchases of raw materials and consumables	481,153

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## **24 Contingencies and Commitments**

### **Commitments**

There were no financial guarantees provided by the Company as at 31 December 2018 and 31 December 2017. The Company has no capital expenditure commitments as well.

### **Contingencies**

**Insurance.** The Company does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Company obtains adequate insurance coverage, there is risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

**Legal proceedings.** From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates the Management is of the opinion that no material losses will be incurred, and, accordingly, no provision has been made in these financial statements as at 31 December 2018 and 2017, respectively.

**Tax contingencies.** Tax, currency and customs legislation of the Republic of Azerbaijan are subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Entity may be challenged by the relevant tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Starting from the financial year ended 31 December 2001 fiscal periods remains open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain legislative circumstances reviews may cover longer periods.

The Company's management believes that its interpretation of the relevant legislation is appropriate and the entity's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2018 no provision for potential tax liabilities had been recorded (31 December 2017: no provision).

## **25 Management of Capital**

The Company's objectives when managing capital are to comply with the capital requirements set by the regulatory body and to safeguard the Company's ability to continue as a going concern and its financial stability. The equity of the Company amounted to AZN 56,492,302 as at 31 December 2018 and AZN 58,042,738 as at 31 December 2017.

According to the law on "Postal Services" of the Republic of Azerbaijan, the Company is subject to the capital regulatory requirement, such as required capital determined is higher of minimum regulatory capital required by the regulatory body, which is AZN 20,000,000.

As at 31 December 2018 the Company was in compliance with insurance regulatory requirements set by the regulatory body in respect of minimum capital requirement.

## **26 Presentation of Financial Instruments by Measurement Category**

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (d) financial assets at amortised cost. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

<i>In Azerbaijani Manats</i>	<b>Amortised cost</b>
<b>Assets</b>	
<b><i>Cash and cash equivalents:</i></b>	
- Cash on hand	13,302,310
- Cash in transit	844,930
- Cash in ATM	2,999,327
- Cash balances with CBAR	27,545,882
- Correspondent accounts with other banks	31,227,827
<b><i>Trade and other receivables:</i></b>	
- Trade receivables	12,421,443
- Other financial receivables	122,961
<b>Total financial assets</b>	<b>88,464,680</b>

During 2018 all of the Company's financial liabilities are carried at amortised cost.

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.



**26 Presentation of Financial Instruments by Measurement Category (Continued)**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

<i>In Azerbaijani Manats</i>	<b>Loans and receivables</b>
<b>Assets</b>	
<b>Cash and cash equivalents:</b>	
- Cash on hand	12,789,460
- Cash in transit	258,388
- Cash in ATM	1,570,503
- Cash balances with CBAR	3,368,628
- Correspondent accounts with other banks	24,307,260
<b>Trade and other receivables:</b>	
- Trade receivables	12,144,475
- Other financial receivables	174,715
<b>Total financial assets</b>	<b>54,613,429</b>

During 2017 all of the Company's financial liabilities are carried at amortised cost.

**27 Financial Risk Management**

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

**Market risk.** The Company takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Currency risk.** The Company is exposed to currency risk on sales, purchases and the borrowings that are denominated in a currency other than the respective functional currencies of the Company.

The Company's exposure to foreign exchange risk as of 31 December 2018 and 31 December 2017 is presented in the table below:

<i>In Azerbaijani Manats</i>	At 31 December 2018			At 31 December 2017		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Azerbaijani Manats	50,026,781	(51,468,831)	(1,442,050)	21,771,667	(25,267,835)	(3,496,168)
US Dollars	30,010,035	(33,215,309)	(3,205,274)	20,063,915	(22,161,191)	(2,097,276)
Euros	760,699	(1,180,835)	(420,136)	5,698,494	(5,390,949)	307,545
Russian Rubbles	1,533,747	(115,972)	1,417,775	1,548,127	-	1,548,127
SDR	6,133,418	(4,518,379)	1,615,039	5,531,226	(4,203,631)	1,327,595
<b>Total</b>	<b>88,464,680</b>	<b>(90,499,326)</b>	<b>(2,034,646)</b>	<b>54,613,429</b>	<b>(57,023,606)</b>	<b>(2,410,177)</b>

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

**27 Financial Risk Management (Continued)**

The following significant exchange rates applied during the year:

AZN	Reporting date spot rate	
	2018	2017
1 USD	1.7000	1.7001
1 EUR	1.9468	2.0307
1 RUB	0.0245	0.0295
1 SDR	2.3573	2.4153

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Company, with all other variables held constant:

<i>In Azerbaijani Manats</i>	31 December 2018	31 December 2017
	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20%	(641,055)	(419,455)
US Dollar weakening by 20%	641,055	419,455
Euro strengthening by 20%	(84,027)	61,509
Euro weakening by 20%	84,027	(61,509)
Russian Rubbles strengthening by 20%	283,555	309,625
Russian Rubbles weakening by 20%	(283,555)	(309,625)
SDR strengthening by 20%	323,008	265,519
SDR weakening by 20%	(323,008)	(265,519)

**Interest rate risk.** The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Total financial assets	88,464,680	-	-	-	88,464,680
Total financial liabilities	(76,288,721)	(365,714)	(365,714)	(13,479,177)	(90,499,326)
<b>Net interest sensitivity gap at 31 December 2018</b>	<b>12,175,959</b>	<b>(365,714)</b>	<b>(365,714)</b>	<b>(13,479,177)</b>	<b>(2,034,646)</b>
Total financial assets	54,613,429	-	-	-	54,613,429
Total financial liabilities	(41,937,272)	(406,571)	(406,571)	(14,273,192)	(57,023,606)
<b>Net interest sensitivity gap at 31 December 2017</b>	<b>12,676,157</b>	<b>(406,571)</b>	<b>(406,571)</b>	<b>(14,273,192)</b>	<b>(2,410,177)</b>

The Company does not have formal policies and procedures in place for the management of interest rate risks as management considers this risk as insignificant to the Company's business.

**Credit risk.** The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets. Each branch of the entity is responsible for managing and analysing the credit risk for each of their new clients before terms and conditions are offered. Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding receivables.

**27 Financial Risk Management (Continued)**

The credit quality of the customer is assessed taking into account its financial position, past experience and other factors and the management does not expect any losses from non-performance by these counter parties in the reporting periods.

The Company's maximum exposure to credit risk by class of assets is as follows:

<i>In Azerbaijani Manats</i>	<b>2018</b>	<b>2017</b>
<b>Trade and other receivables</b>		
- Trade receivables	12,421,443	12,144,475
- Other financial receivables	122,961	174,715
<b>Cash and cash equivalents</b>		
- Bank balances payable on demand	58,773,709	27,675,888
<b>Total maximum exposure to credit risk</b>	<b>71,318,113</b>	<b>39,995,078</b>

**Credit risk grading system.** For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). External credit ratings with a corresponding credit risk grade are disclosed in the table below:

<b>Master scale credit risk grade</b>	<b>Corresponding ratings of external international rating agencies (Moody's)</b>
Excellent	Aaa to Ba1
Good	Ba2 to B1
Satisfactory	B2, B3
Special monitoring	Caa1+ to Ca
Default	C

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: cash and cash equivalents.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by wholesale customers is regularly monitored by line management.

**Expected Credit Loss for financial assets.** The Company has only trade receivables from the provision of services that are subject to the expected credit loss model.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

## **27 Financial Risk Management (Continued)**

**Trade receivables.** The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 and the corresponding historical credit losses experienced within this period.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 90 days past due.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances.

Credit risk attributable to receivables from foreign postal administrations is generally mitigated by offsetting trade payables to foreign postal administrations on an individual country basis, under the provisions of the Universal Postal Union. Final settlement with each foreign Postal administration can be billed a year or more after the service is performed. The Company's provision for uncollectible receivables from specific foreign postal administrations is based on the period past due after billing of the final settlement.

Impairment losses on trade receivables is presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities.

PD an estimate of the likelihood of default to occur over a given time period.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period.

These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

**Principles of assessment based on external ratings.** Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies.

**Forward-looking information incorporated in the ECL models.** Forward looking information is incorporated in the external rating assigned when migration matrix is used for ECL measurement.

*Forward-looking approach for simplified approach for trade receivables.*

1. PD and LGD estimations for accounts receivables are based on history from last 36 months so the most recent macroeconomic environment is essentially already reflected in the estimation process;
2. Expected environment in the near future is similar to that reflected in the time series included in the PD and LGD estimation;
3. Due dates for trade receivables of the Company are below 30 days. The long-term macroeconomic development does not play significant role in shaping risk profile in the segments. Therefore, no forward-looking adjustment is implemented for accounts receivables.

**27 Financial Risk Management (Continued)**

The Company regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

The results of back testing the ECL measurement methodology are communicated to Company Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

**Liquidity risk.** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company seeks to maintain a stable funding base primarily consisting of borrowing and trade and other payables. The Company keeps the funds in cash and cash equivalents, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

<i>In Azerbaijani Manats</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
<b>Liabilities</b>					
Term loans	-	365,714	365,714	13,479,177	14,210,605
Trade and other financial payables	26,404,323	-	-	-	26,404,323
Customer accounts	49,884,398	-	-	-	49,884,398
<b>Total financial liabilities</b>	<b>76,288,721</b>	<b>365,714</b>	<b>365,714</b>	<b>13,479,177</b>	<b>90,499,326</b>

The maturity analysis of financial liabilities at 31 December 2017 is as follows:

<i>In Azerbaijani Manats</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
<b>Liabilities</b>					
Term loans	-	406,571	406,571	14,273,192	15,086,334
Trade and other financial payables	19,462,167	-	-	-	19,462,167
Customer accounts	22,475,105	-	-	-	22,475,105
<b>Total financial liabilities</b>	<b>41,937,272</b>	<b>406,571</b>	<b>406,571</b>	<b>14,273,192</b>	<b>57,023,606</b>

**28 Accounting policies before 1 January 2018**

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows:

**Classification of financial assets.** Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

**Loans and receivables** are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. The Company's loans and receivables comprise of 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

**28 Accounting policies before 1 January 2018 (Continued)**

**Classification of financial liabilities.** Financial liabilities have the following measurement category: other financial liabilities. Other financial liabilities are carried at amortised cost. The Company's other financial liabilities comprise of 'trade and other payables' in the statement of financial position.

**Revenue recognition.** Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided, stated net of discounts and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below.

**Sales of services.** Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.