

Azerpost Limited Liability Company

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

31 December 2019

Contents

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Statement of Financial Position	1
Statement of Profit or Loss and Other Comprehensive Income	2
Statement of Changes in Equity	3
Statement of Cash Flows	4

Notes to the Financial Statements

1	Azerpost LLC and its Operations	5
2	Operating Environment of the Company	5
3	Significant Accounting Policies	6
4	Critical Accounting Estimates and Judgements in Applying Accounting Policies	12
5	Adoption of New or Revised Standards and Interpretations	13
6	New Accounting Pronouncements	14
7	Property, Plant and Equipment	17
8	Right-of-use assets and lease liabilities	18
9	Intangible Assets	18
10	Prepayments for non-current assets	19
11	Inventory	19
12	Trade and Other Receivables	19
13	Cash and Cash Equivalents	20
14	Charter Capital	21
15	Borrowings	21
16	Trade and Other Payables	22
17	Customer Accounts	22
18	Analysis of Revenue by Category	22
19	Other Income	23
20	Cost of Services	23
21	Operating Expenses	23
22	Finance income and costs	23
23	Income Tax	24
24	Balances and Transactions with Related Parties	24
25	Contingencies and Commitments	25
26	Management of Capital	25
27	Presentation of Financial Instruments by Measurement Category	26
28	Financial Risk Management	27
29	Events after the Reporting Period	31
30	Accounting Policies for Leases before 1 January 2019	31



Independent Auditor's Report

To the Owner and the Management of Azerpost LLC:

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 2019, 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 2019;
- 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.

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.

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.

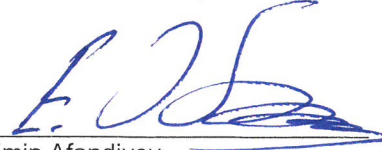
Baku, the Republic of Azerbaijan

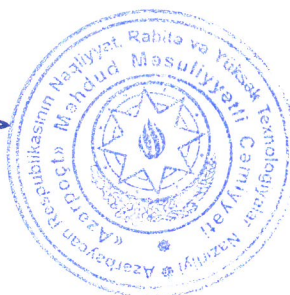
6 October 2020

Azerpost Limited Liability Company
Statement of Financial Position

<i>In Azerbaijani Manats</i>	Note	31 December 2019	31 December 2018
Assets			
Property, plant and equipment	7	48,446,900	52,424,174
Right of use assets	8	533,246	-
Intangible assets	9	886,444	1,186,827
Prepayments for non-current assets	10	537,707	862,921
Total non-current assets		50,404,297	54,473,922
Cash and cash equivalents	13	118,120,900	75,920,276
Trade and other receivables	12	15,782,370	14,798,387
Inventory	11	1,848,711	1,766,201
Deferred tax asset	23	173,648	173,648
Other assets		31,712	32,340
Total current assets		135,957,341	92,690,852
TOTAL ASSETS		186,361,638	147,164,774
Equity			
Charter capital	14	73,344,500	73,344,500
Other reserves		56,717	56,717
Accumulated deficit		(14,188,061)	(16,908,915)
Total equity		59,213,156	56,492,302
Liabilities			
Borrowings	15	12,636,447	13,479,177
Lease liability		286,110	-
Total non-current liabilities		12,922,557	13,479,177
Trade and other payables	16	16,446,628	26,577,469
Customer accounts	17	96,781,709	49,884,398
Borrowings	15	731,429	731,428
Lease liability		266,159	-
Total current liabilities		114,225,925	77,193,295
Total liabilities		127,148,482	90,672,472
Total equity and liabilities		186,361,638	147,164,774

Approved for issue and signed on behalf of the Management on 06 October 2020.


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>	Note	2019	2018
Revenue	18	45,156,159	45,622,247
Cost of services	20	(26,306,111)	(29,501,218)
Gross profit		18,850,048	16,121,029
Other operating income	19	3,030,122	1,039,348
Operating expenses	21	(18,452,053)	(18,055,308)
Operating profit/(loss)		3,428,117	(894,931)
Foreign exchange losses less gains		(46,031)	(298,387)
Finance income/(costs)	22	(60,578)	(9,741)
Profit/(Loss) before income tax		3,321,508	(1,203,059)
Income tax credit	23	(600,654)	47,218
Net Profit/(Loss) for the year		2,720,854	(1,155,841)

Azerpost Limited Liability Company
Statement of Changes in Equity

<i>In Azerbaijani Manats</i>	Charter capital	Other reserves	Accumulated deficit	Total Equity
Balance at 1 January 2018	73,344,500	68,110	(15,753,074)	57,659,536
Loss for the year	-	-	(1,155,841)	(1,155,841)
Total comprehensive loss for the year	-	-	(1,155,841)	(1,155,841)
Other distributions to shareholders	-	(11,393)	-	(11,393)
Balance at 31 December 2018	73,344,500	56,717	(16,908,915)	56,492,302
Profit for the year	-	-	2,720,854	2,720,854
Total comprehensive profit for the year	-	-	2,720,854	2,720,854
Balance at 31 December 2019	73,344,500	56,717	(14,188,061)	59,213,156

Azerpost Limited Liability Company
Statement of Cash Flows

<i>In Azerbaijani Manats</i>	Note	2019	2018
Cash flows from operating activities			
(Loss)/Profit before income tax		3,321,508	(1,203,059)
Adjustments for:			
Depreciation of property, plant and equipment		6,422,748	6,288,502
Amortisation of intangible assets	9	349,567	403,323
Impairment of trade and other receivables	21	191,240	498,175
Impairment of prepayments for non-current assets		-	59,158
Impairment of property, plant and equipment		-	280,662
Loss on disposal		40,765	-
Finance costs	22	60,578	9,741
Foreign exchange translation differences		46,031	298,387
Operating cash flows before working capital changes		10,432,437	6,634,889
Increase in trade and other receivables		(1,175,223)	(976,868)
Increase in inventories		(82,510)	(557,890)
Decrease in other current assets		628	60,893
(Decrease)/increase in trade and other payables		(10,731,495)	6,614,774
Increase in customer accounts		46,897,311	27,404,338
Changes in working capital		34,908,711	32,545,247
Interest paid		(60,578)	(10,628)
Net cash from operating activities		45,280,570	39,169,508
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,894,402)	(4,356,801)
Purchases of intangible assets	9	(49,184)	(17,976)
Net cash used in investing activities		(1,943,586)	(4,374,777)
Cash flows from financing activities			
Repayment of borrowings		(842,729)	(874,840)
Repayment of lease liabilities		(247,600)	
Other distributions to shareholders		-	(44,424)
Net cash used in financing activities		(1,090,329)	(919,264)
Effect of exchange rate changes on cash and cash equivalents		(46,031)	(249,430)
Cash and cash equivalents at the beginning of the year	13	75,920,276	42,294,239
Cash and cash equivalents at the end of the year	13	118,120,900	75,920,276

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 2019, 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 was oriented towards achievement of price stability and shaping a favourable 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, 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 2020, Standard & Poor's, 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 is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Company's business in the foreseeable future. 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. 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 16, *Leases*, effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5 and 30. The principal accounting policies applied to leases until 31 December 2018 are presented in Note 30.

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 and 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.

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 2019 (2018: 1.7000); 1 EUR to AZN was 1.9035 at 31 December 2019 (2018: 1.9468); 1 RUB to AZN was 0.0274 at 31 December 2019 (2018: 0.0245), and 1 SDR to AZN was 2.3463 at 31 December 2019 (2018: 2.3573).

Property, plant and equipment. Plant and equipment are 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)

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.

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.

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.

3 Significant Accounting Policies (Continued)

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 2019 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 28.

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', 'finance lease liabilities' 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.

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.

3 Significant Accounting Policies (Continued)

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.

Lease liabilities. Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Company under residual value guarantees,
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3 Significant Accounting Policies (Continued)

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.

Sales of services. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual service provided to the end of the reporting period because the customer receives and uses the benefits simultaneously.

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.

3 Significant Accounting Policies (Continued)

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 and interest expense on lease liabilities.

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.

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:

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

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.

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

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Company has adopted IFRS 16 *Leases* retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 3. On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. All right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses). The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.25%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

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

A reconciliation of the operating lease commitments to the recognised liability is as follows:

	31 December 2018 / 1 January 2019
Total future minimum lease payments for non-cancellable operating leases as at 31 December 2018	892,410
- Effect of discounting to present value	(92,541)
- Less short-term leases not recognised as a liability	-
Total lease liabilities recognised as at 1 January 2019	799,869
Of which are:	
Short-term lease liabilities	247,600
Long-term lease liabilities	552,269

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

	Impact of adopting IFRS 16
Increase in right-of-use assets	799,869
Increase in lease liabilities	(799,869)

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Company:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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).
- 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).
- 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).

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 2020 or later, and which the Company has not early adopted.

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 is currently assessing the impact of the amendments on its financial statements.

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;

6 New Accounting Pronouncements (Continued)

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 there 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 amendments are prospective and the Company will apply them and assess their impact from 1 January 2020.

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.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met.

In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Company is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Company is currently assessing the impact of the amendments on its financial statements.

Azerpost Limited Liability Company
Notes to the Financial Statements – 31 December 2019

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 2018	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)
Carrying amount at 1 January 2018	41,763,976	7,104,843	2,762,648	2,343,154	24,850	564,943	54,564,414
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 of disposals	164,748	144,713	135,017	42,064	-	-	486,542
Carrying amount at 31 December 2018	40,006,789	6,475,510	2,256,441	2,854,190	26,752	804,492	52,424,174
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)
Carrying amount at 31 December 2018	40,006,789	6,475,510	2,256,441	2,854,190	26,752	804,492	52,424,174
Additions	298,796	1,460,903	272,917	187,000	-	-	2,219,616
Transfers	1,168	-	-	-	-	(1,168)	-
Disposals	(80)	(393,303)	(191,162)	-	(16,148)	-	(600,693)
Depreciation charge	(2,988,713)	(1,761,367)	(677,908)	(722,025)	(6,112)	-	(6,156,125)
Accumulated depreciation of disposals	80	352,538	191,162	-	16,148	-	559,928
Carrying amount at 31 December 2019	37,318,040	6,134,281	1,851,450	2,319,165	20,640	803,324	48,446,900
Cost at 31 December 2019	58,084,494	18,257,135	7,769,188	7,138,173	98,883	803,324	92,151,197
Accumulated depreciation and impairment	(20,766,454)	(12,122,854)	(5,917,738)	(4,819,008)	(78,243)	-	(43,704,297)
Carrying amount at 31 December 2019	37,318,040	6,134,281	1,851,450	2,319,165	20,640	803,324	48,446,900

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”.

8 Right-of-use assets and lease liabilities

The Company leases various buildings. Rental contracts are typically made for fixed periods of 3 years. Until 31 December 2018 leases of property, plant and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Company.

	Buildings	Total
Carrying amount at 1 January 2019	799,869	799,869
Depreciation charge	(266,623)	(266,623)
Carrying amount at 31 December 2019	533,246	533,246

The Company recognised lease liabilities as follows:

	31 December 2019	1 January 2019
Short-term lease liabilities	266,159	247,600
Long-term lease liabilities	286,110	552,269
Total lease liabilities	552,269	799,869

During 2019, lease related interest expense included in finance costs amounted to AZN 50 thousand. Expenses relating to short-term leases (included in general and administrative expenses) comprised AZN 46 thousand for the year ended 31 December 2019. Total cash outflow for leases during the year ended 31 December 2019 comprised AZN 297 thousand.

9 Intangible Assets

<i>In Azerbaijani Manats</i>	Software licences
Cost at 1 January 2018	4,040,454
Accumulated amortisation	(2,468,280)
Carrying amount at 1 January 2018	1,572,174
Additions	17,976
Disposals	(28,236)
Amortisation charge	(403,323)
Accumulated amortisation of disposals	28,236
Carrying amount at 31 December 2018	1,186,827
Cost at 31 December 2018	4,030,194
Accumulated amortisation	(2,843,367)
Carrying amount at 31 December 2018	1,186,827
Additions	49,184
Disposals	(212,564)
Amortisation charge	(349,567)
Accumulated amortisation of disposals	212,564
Carrying amount at 31 December 2019	886,444
Cost at 31 December 2019	3,866,814
Accumulated amortisation	(2,980,370)
Carrying amount at 31 December 2019	886,444

10 Prepayments for non-current assets

Prepayments for non-current assets represent advance payments in the amount of AZN 537,707 (2018: AZN 862,921) to suppliers for property and equipment and intangible assets.

11 Inventory

<i>In Azerbaijani Manats</i>	2019	2018
Goods for resale	886,619	528,001
Raw materials and consumables	962,092	1,238,200
Total inventories	1,848,711	1,766,201

12 Trade and Other Receivables

<i>In Azerbaijani Manats</i>	2019	2018
Trade receivables	14,679,723	13,863,665
Other financial receivables	101,059	122,961
Less credit loss allowance/ impairment provision	(1,633,462)	(1,442,222)
Total financial assets within trade and other receivables	13,147,320	12,544,404
Other receivables	1,149,306	575,484
Prepayments	206,665	651,778
Settlements with Millikart	101,736	83,825
VAT recoverable	1,177,343	942,896
Total trade and other receivables	15,782,370	14,798,387

Trade receivables of AZN 7,556 thousand (2018: AZN 6,098 thousand) net of impairment loss provisions are denominated in foreign currency.

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.

12 Trade and Other Receivables (Continued)

<i>In % of gross value (in Azerbaijani Manats)</i>	31 December 2019			31 December 2018		
	Gross carrying amount	Lifetime ECL	Net carrying value	Gross carrying amount	Lifetime ECL	Net carrying value
Trade receivables						
- current	12,694,581	(587,204)	12,107,377	11,300,180	(278,045)	11,022,135
- less than 30 days overdue	199,549	(62,941)	136,608	408,267	(132,502)	275,765
- 30 to 90 days overdue	700,182	(194,697)	505,485	1,203,843	(332,039)	871,804
- 91 to 180 days overdue	451,767	(294,421)	157,346	657,378	(424,337)	233,041
- 181 to 360 days overdue	557,575	(418,130)	139,446	52,744	(34,046)	18,698
- over 360 days overdue	76,069	(76,069)	-	241,253	(241,253)	-
Total	14,679,723	(1,633,462)	13,046,261	13,863,665	(1,442,222)	12,421,443

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>	2019	2018
Allowance for credit losses on trade receivables at 1 January	(1,442,222)	(1,004,646)
Increase in credit loss allowance recognised in profit or loss during the year	(191,240)	(437,576)
Total credit loss allowance charge in profit or loss for the period	(191,240)	(437,576)
Allowance for credit losses on trade receivables at 31 December	(1,633,462)	(1,442,222)

13 Cash and Cash Equivalents

<i>In Azerbaijani Manats</i>	2019	2018
Cash on hand	16,982,821	13,302,310
Cash in transit	117,911	844,930
Cash in ATM	5,152,138	2,999,327
Cash balances with the CBAR	21,112,423	27,545,882
Correspondent accounts with other banks	74,755,607	31,227,827
Total cash and cash equivalents at 31 December	118,120,900	75,920,276

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019 and 31 December 2018. Refer to Note 27 for the description of the Company's credit risk grading system:

<i>In Azerbaijani Manats</i>	31 December 2019	31 December 2018
- Excellent	74,751,163	31,198,802
- Good	21,116,867	27,574,907
Total cash and cash equivalents, excluding cash on hand	95,868,030	58,773,709

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.

14 Charter Capital

The Company's registered charter capital as at 31 December 2019 is AZN 73,344,500 (31 December 2018: AZN 73,344,500).

The Company's ownership structure as of 31 December 2019 and 31 December 2018 was as follows:

State Committee on Property Issues of the Republic of Azerbaijan	100%
TOTAL	100%

15 Borrowings

<i>In Azerbaijani Manats</i>	2019	2018
Term loans	13,367,876	14,210,605
Total borrowings	13,367,876	14,210,605

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 is 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>	2019	2018
Current portion	731,429	731,428
Non-current portion	12,636,447	13,479,177
Total borrowings	13,367,876	14,210,605

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>	Liabilities from financing activities
	Borrowings
Liabilities from financing activities at 1 January 2018	(15,086,334)
Repayment of borrowings	874,842
Foreign exchange adjustments	887
Liabilities from financing activities at 31 December 2018	(14,210,605)
Repayment of borrowings	842,729
Liabilities from financing activities at 31 December 2019	(13,367,876)

16 Trade and Other Payables

<i>In Azerbaijani Manats</i>	2019	2018
Trade payables	12,517,603	17,822,003
Amount payable to utility service providers	3,488,528	7,707,746
Other payables	256,336	874,574
Total financial payables within trade and other payables	16,262,467	26,404,323
Advances received	184,161	173,146
Total trade and other payables	16,446,628	26,577,469

17 Customer Accounts

<i>In Azerbaijani Manats</i>	2019	2018
State and public organisations		
- Current/settlement accounts	91,592,924	41,180,683
Other legal entities		
- Current/settlement accounts	3,252,764	4,776,764
Individuals		
- Current/demand accounts	1,936,021	3,926,951
Total customer accounts	96,781,709	49,884,398

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:

<i>In Azerbaijani Manats</i>	2019	2018
Revenue from domestic sales	33,246,916	30,729,475
Revenue from export sales	11,909,243	14,892,772
Total revenue from contracts with customers	45,156,159	45,622,247

Revenue by major product lines and types of services provided:

<i>In Azerbaijani Manats</i>	2019	2018
Revenue from financial services, including money transfers	11,683,314	11,310,706
Revenue from postal services	11,396,140	14,324,682
Commission from utility and other payments	8,562,477	8,582,417
Sales of stamps and envelopes	6,923,826	5,708,765
Express postal services fees	1,250,453	1,165,472
Courier services	1,263,660	1,102,558
Telegraph services fees	595,628	539,525
Revenue from technical service and maintenance	-	3,825
Sales of payments cards	9,671	532
Other revenues	3,470,990	2,883,765
Total revenue from contracts with customers	45,156,159	45,622,247

19 Other Income

<i>In Azerbaijani Manats</i>	2019	2018
Government grant	2,433,250	1,000,000
Other income	596,872	39,348
Total other income	3,030,122	1,039,348

20 Cost of Services

<i>In Azerbaijani Manats</i>	2019	2018
Staff costs	14,062,458	13,564,318
Distribution and conveyance costs	2,623,545	7,055,006
Depreciation and amortisation	5,021,243	5,011,536
Materials and supplies	1,451,855	1,114,645
Fuel expenses	805,529	792,442
Data processing costs	733,937	719,328
Purchase of post marks	656,603	495,278
Cost of payment cards	62,872	105,835
Other	888,069	642,830
Total cost of services	26,306,111	29,501,218

21 Operating Expenses

<i>In Azerbaijani Manats</i>	2019	2018
Staff costs	9,486,340	9,445,859
Depreciation and amortisation	1,751,072	1,680,289
Professional services	1,150,889	939,140
Repair and maintenance	921,035	304,749
Security expense	824,811	770,677
Utilities expense	758,064	724,477
Communication expense	572,943	460,202
Taxes other than on income tax	526,852	611,377
Bank charges	492,165	495,109
Rent expenses	45,535	333,812
Business trip expenses	303,219	332,287
Stationary expense	179,593	131,359
Membership fees	162,825	377,070
Impairment of property, plant and equipment	-	280,662
Impairment of trade and other receivables	191,240	498,175
Impairment of prepayments for non-current assets	-	59,158
Other	1,085,470	610,906
Total operating expenses	18,452,053	18,055,308

22 Finance income and costs

<i>In Azerbaijani Manats</i>	2019	2018
Interest expenses on borrowings	(10,708)	(10,628)
Interest expenses on lease liabilities	(49,870)	-
Foreign exchange losses less gains from borrowings	-	887
Finance costs	(60,578)	(9,741)

23 Income Tax

(a) Components of income tax

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

<i>In Azerbaijani Manats</i>	2019	2018
Current tax expense	600,654	126,430
Deferred tax credit	-	(173,648)
Income tax expense/(credit) for the year	600,654	(47,218)

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.

(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>	2019	2018
Profit/(Loss) before tax	3,321,508	(1,203,060)
Theoretical tax expense at statutory rate of 20%:	664,302	(240,612)
Non-deductible expenses	287,137	357,495
Utilisation of previously unrecognised tax loss carry forwards	-	(164,101)
Utilisation of previously unrecognised other potential deferred tax assets	(350,785)	-
Income tax expense/(credit) for the year	600,654	(47,218)

(c) Tax loss carry forwards

The Company has nil unrecognised potential deferred tax assets in respect of unused tax loss carry forwards (2018: nil).

24 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 2019, compensation of key management personnel totalled AZN 972,414 (2018: AZN 965,767).

At 31 December 2019, the outstanding balances with related parties were as follows:

<i>In Azerbaijani Manats</i>	Entities under common control
Gross amount of trade and other receivables	1,382,481
ECL	(19,449)
Trade and other payables	535,332
Customer accounts	45,565,223

23 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the year ended 31 December 2019 were as follows:

<i>In Azerbaijani Manats</i>	Entities under common control
Revenue from services rendered	1,443,721
Purchases of raw materials and consumables	656,603

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

<i>In Azerbaijani Manats</i>	Entities under common control
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

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

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

25 Contingencies and Commitments

Commitments

There were no financial guarantees provided by the Company as at 31 December 2019 and 31 December 2018. 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 2019 and 2018, 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 2019 no provision for potential tax liabilities had been recorded (31 December 2018: no provision).

26 Management of Capital

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 CBAR, which is AZN 20,000,000.

As at 31 December 2019 the Company was in compliance with insurance regulatory requirements set by the CBAR in respect of minimum capital requirement.

27 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 2019:

<i>In Azerbaijani Manats</i>	Amortised cost
Assets	
Cash and cash equivalents:	
- Cash on hand	16,982,821
- Cash in transit	117,911
- Cash in ATM	5,152,138
- Cash balances with CBAR	21,112,423
- Correspondent accounts with other banks	74,755,607
Trade and other receivables:	
- Trade receivables	13,046,261
- Other financial receivables	101,059
Total financial assets	131,268,220

During 2019 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.

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

<i>In Azerbaijani Manats</i>	Amortised cost
Assets	
Cash and cash equivalents:	
- 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
Trade and other receivables:	
- Trade receivables	12,421,443
- Other financial receivables	122,961
Total financial assets	88,464,680

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

28 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 2019 and 31 December 2018 is presented in the table below:

<i>In Azerbaijani Manats</i>	At 31 December 2019			At 31 December 2018		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Azerbaijani Manats	48,167,592	(41,942,289)	6,225,303	50,026,781	(51,468,831)	(1,442,050)
US Dollars	73,601,606	(77,288,833)	(3,687,227)	30,010,035	(33,215,309)	(3,205,274)
Euros	664,047	(1,462,009)	(797,962)	760,699	(1,180,835)	(420,136)
Russian Rubbles	1,214,959	(3,521)	1,211,438	1,533,747	(115,972)	1,417,775
SDR	7,620,012	(6,267,669)	1,352,343	6,133,418	(4,518,379)	1,615,039
Total	131,268,216	(126,964,321)	4,303,895	88,464,680	(90,499,326)	(2,034,646)

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.

The following significant exchange rates applied during the year:

AZN	Reporting date spot rate	
	2019	2018
1 USD	1.7000	1.7000
1 EUR	1.9435	1.9468
1 RUB	0.0274	0.0245
1 SDR	2.3463	2.3573

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 2019 Impact on profit or loss	31 December 2018 Impact on profit or loss
US Dollar strengthening by 20%	(737,445)	(641,055)
US Dollar weakening by 20%	737,445	641,055
Euro strengthening by 20%	(159,592)	(84,027)
Euro weakening by 20%	159,592	84,027
Russian Rubbles strengthening by 20%	242,288	283,555
Russian Rubbles weakening by 20%	(242,288)	(283,555)
SDR strengthening by 20%	270,469	323,008
SDR weakening by 20%	(270,469)	(323,008)

28 Financial Risk Management (Continued)

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	131,268,216	-	-	-	131,268,216
Total financial liabilities	(113,065,627)	(474,937)	(501,198)	(12,922,559)	(126,964,321)
Net interest sensitivity gap at 31 December 2019	18,202,589	(474,937)	(501,198)	(12,922,559)	4,303,895
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)
Net interest sensitivity gap at 31 December 2018	12,175,959	(365,714)	(365,714)	(13,479,177)	(2,034,646)

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.

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>	2019	2018
Trade and other receivables		
- Trade receivables	13,046,261	12,421,443
- Other financial receivables	101,059	122,961
Cash and cash equivalents		
- Bank balances payable on demand	95,868,030	58,773,709
Total maximum exposure to credit risk	109,015,350	71,318,113

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).

28 Financial Risk Management (Continued)

External credit ratings with a corresponding credit risk grade are disclosed in the table below:

Master scale credit risk grade	Corresponding ratings of external international rating agencies (Moody's)
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 board. 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.

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 2019 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.

28 Financial Risk Management (Continued)

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.

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.

28 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

<i>In Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	Total
Liabilities					
Term loans	-	365,715	365,714	12,636,447	13,367,876
Lease liabilities	21,453	43,294	201,412	286,110	552,269
Trade and other financial payables	16,262,467	-	-	-	16,262,467
Customer accounts	96,781,709	-	-	-	96,781,709
Total financial liabilities	113,065,629	409,009	567,126	12,922,557	126,964,321

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

<i>In Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	Total
Liabilities					
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
Total financial liabilities	76,288,721	365,714	365,714	13,479,177	90,499,326

29 Events after the Reporting Period

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to business and economic activity. On the other side, the lack of growth in oil demand and decline in global oil prices in March 2020 may directly impact the operating environment of the Company. The Management considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company.

Covid-19 has more indirect effect on Azerbaijan economy that is totally depending on oil production. Due to pandemic, there is a decrease in oil demand and drop in oil prices that is also partially explained by the outbreak. To date there has been no discernible impact on the Company's sales or supply chain. Decline in customers demand is not observed by the management in the first half of 2020. The purchase and usage of raw materials are running as in the normal course of the business. Since significant impact on future cash inflows is not expected, the management does not expect impairment in value of assets in 2020. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Company's IFRS 9 estimates of expected credit loss provisions in 2020.

30 Accounting Policies for Leases before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16, *Leases*, are as follows:

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.