

# **“AZERPOST” LIMITED LIABILITY COMPANY**

**The International Financial Reporting Standards  
Financial Statements and  
Independent Auditors' Report  
For the Year Ended December 31, 2022**

# “AZERPOST” LIMITED LIABILITY COMPANY

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## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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The following statement is made with a view to distinguish the respective responsibilities of the management and those of the independent auditors in relation to the International Financial Reporting Standards ("IFRS") financial statements of "Azerpost" Limited Liability Company (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at December 31, 2022, the results of its operations, changes in equity and cash flows for the year then ended, in accordance with IFRS.

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards;
- Taking such steps that are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements of the Company for the year ended December 31, 2022 were authorized for issue on May 30, 2023 by the Management of the Company.

**On behalf of the Management:**

  
  
**Afgan Jalilov**  
**Chairman of the Board**  
May 30, 2023  
Baku, the Republic of Azerbaijan

  
**Isi Mustafayev**  
**Board Member**

May 30, 2023  
Baku, the Republic of Azerbaijan

## INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Management of "Azerpost" Limited Liability Company:

### *Opinion*

We have audited the financial statements of "Azerpost" Limited Liability Company (the "Company"), which comprise the statement of financial position as at December 31, 2022, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements presented fairly, in all material respects, the statement of financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *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 have no realistic alternative but to do so.

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



### *Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

*Baker Tilly Azerbaijan*

May 30, 2023

Baku, the Republic of Azerbaijan

**“AZERPOST” LIMITED LIABILITY COMPANY**

**STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2022  
(In Azerbaijani Manats)**

	Notes	December 31, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	8	37,180,272	40,493,506
Right-of-use assets	9	624,297	695,830
Intangible assets	10	604,299	229,943
Prepayment for non-current assets	11	328,315	594,654
Deferred income tax asset	12	448,546	446,739
Investment securities	13	148,144,459	93,500,220
<b>Total non-current assets</b>		<b>187,330,188</b>	<b>135,960,892</b>
<b>Current assets:</b>			
Cash and cash equivalents	14	251,549,884	181,230,273
Trade and other receivables	6, 15	18,389,877	14,532,421
Inventory	16	1,925,317	3,158,530
Investment securities	13	164,531,841	99,322,310
Other assets		280,806	172,046
<b>Total current assets</b>		<b>436,677,725</b>	<b>298,415,580</b>
<b>TOTAL ASSETS</b>		<b>624,007,913</b>	<b>434,376,472</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
<b>Non-current liabilities:</b>			
Borrowings	17	10,618,321	10,805,757
Lease liability	18	327,782	430,589
<b>Total non-current liabilities</b>		<b>10,946,103</b>	<b>11,236,346</b>
<b>Current liabilities:</b>			
Trade and other payables	6, 19	22,174,713	20,584,696
Customer accounts	6, 20	540,567,885	354,798,813
Borrowings	17	-	840,636
Lease liability	18	321,985	272,103
<b>Total current liabilities</b>		<b>563,064,583</b>	<b>376,496,248</b>
<b>Total liabilities</b>		<b>574,010,686</b>	<b>387,732,594</b>
<b>EQUITY:</b>			
Charter capital	21	73,357,719	73,357,719
Other reserves		56,717	56,717
Accumulated deficit		(23,417,209)	(26,770,558)
<b>Total equity</b>		<b>49,997,227</b>	<b>46,643,878</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>624,007,913</b>	<b>434,376,472</b>

On behalf of the Management:

Afgan Jabilov  
Chairman of the Board

May 30, 2023  
Baku, the Republic of Azerbaijan

Isi Mustafayev  
Board Member

May 30, 2023  
Baku, the Republic of Azerbaijan

The notes on pages 9-52 form an integral part of these financial statements.



**“AZERPOST” LIMITED LIABILITY COMPANY**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(In Azerbaijani Manats)**

	Notes	Year ended December 31, 2022	Year ended December 31, 2021 (reclassified)
<b>REVENUES:</b>			
Revenue from postal services	6, 22	20,354,839	18,027,350
Revenue from financial services	6, 22	23,250,345	12,136,209
Revenue from other services	6, 22	11,279,753	10,188,130
<b>TOTAL REVENUES</b>		<b>54,884,937</b>	<b>40,351,689</b>
<b>COSTS AND EXPENSES:</b>			
Operating expenses	6, 23	(26,493,833)	(24,125,649)
General and administrative expenses	24	(23,257,624)	(19,574,720)
Depreciation and amortization	8, 9, 10	(4,585,388)	(5,090,099)
Other income	25	113,700	1,174,713
<b>OPERATING PROFIT/(LOSS)</b>		<b>661,792</b>	<b>(7,264,066)</b>
Gain from investing activities	13	10,307,836	4,234,302
Expected credit losses on financial assets	6, 13, 15	(6,545,929)	(2,148,729)
Interest income on current account		571,169	-
Loss on dealing operations		(406,497)	(187,858)
Finance expenses	26	(89,783)	(34,743)
Gain on termination of lease contracts		95	5,006
Foreign exchange gain/(loss)		3,240	(166,836)
<b>NET PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>4,501,923</b>	<b>(5,562,924)</b>
Income tax (expense)/benefit	12	(166,065)	123,806
<b>NET PROFIT/(LOSS) FOR THE YEAR</b>		<b>4,335,858</b>	<b>(5,439,118)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>4,335,858</b>	<b>(5,439,118)</b>

On behalf of the Management:



**Azgan Jalilov**  
Chairman of the Board

May 30, 2023  
Baku, the Republic of Azerbaijan

**Isi Mustafayev**  
Board Member

May 30, 2023  
Baku, the Republic of Azerbaijan

The notes on pages 9-52 form an integral part of these financial statements .

**“AZERPOST” LIMITED LIABILITY COMPANY**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(In Azerbaijani Manats)**

	Charter capital	Other reserves	Accumulated deficit	Total equity
<b>January 1, 2021</b>	<b>73,344,500</b>	<b>56,717</b>	<b>(21,934,742)</b>	<b>51,466,475</b>
Loss for the year	-	-	(5,439,118)	(5,439,118)
Effect of merger of under common control entity (Note 1)	13,219	-	603,302	616,521
<b>December 31, 2021</b>	<b><u>73,357,719</u></b>	<b><u>56,717</u></b>	<b><u>(26,770,558)</u></b>	<b><u>46,643,878</u></b>
Profit for the year	-	-	4,335,858	4,335,858
Settlements between under common control entities (Note 6)	-	-	(982,509)	(982,509)
<b>December 31, 2022</b>	<b><u>73,357,719</u></b>	<b><u>56,717</u></b>	<b><u>(23,417,209)</u></b>	<b><u>49,997,227</u></b>

On behalf of the Management:



**Afgan Jalilov**  
Chairman of the Board

May 30, 2023  
Baku, the Republic of Azerbaijan

The notes on pages 9-52 form an integral part of these financial statements.

**Isi Mustafayev**  
Board Member

May 30, 2023  
Baku, the Republic of Azerbaijan



# “AZERPOST” LIMITED LIABILITY COMPANY

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022 (In Azerbaijani Manats)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit/(loss) before income tax		4,501,923	(5,562,924)
Adjustments for non-cash items:			
Depreciation of property, plant and equipment and right-of-use assets	8, 9	4,407,719	4,714,563
Amortization of intangible assets	10	177,669	375,536
Gain from investing activities	13	(10,307,836)	(4,234,302)
Expected credit losses on financial assets	13, 15	6,545,929	2,148,729
Interest income on current account		(571,169)	-
Finance expenses	26	89,783	34,743
Gain on termination of lease contracts		(95)	(5,006)
Foreign exchange (gain)/loss on translation differences		(3,240)	166,836
		<u>4,840,683</u>	<u>(2,361,825)</u>
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Change in trade and other receivables		(4,767,800)	(2,254,719)
Change in inventories		1,233,213	13,639
Change in other current assets		(108,760)	(101,125)
Increase/(decrease) in operating liabilities:			
Change in trade and other payables		1,745,606	(1,411,327)
Change in customer accounts		185,769,072	285,571,125
		<u>188,712,014</u>	<u>279,455,768</u>
Total changes in operating assets and liabilities			
Income tax paid		(37,180)	-
		<u>188,674,834</u>	<u>279,455,768</u>
<b>Net cash inflow from operating activities</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale and redemption of investment securities		117,486,582	32,184,995
Interest received		12,805,203	3,641,640
Purchase of property, plant and equipment		(1,513,329)	(627,967)
Purchase of intangible assets		(552,025)	(88,716)
Purchases of investment securities		(244,902,135)	(226,333,403)
Cash acquired during the merger		-	10,295
		<u>(116,675,704)</u>	<u>(191,213,156)</u>
<b>Net cash used in investing activities</b>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from loans and borrowings	17	4,417,600	-
Repayment of borrowings	17	(4,881,572)	(869,835)
Interest paid on borrowings	17	(34,011)	(12,317)
Principal payment for lease liability	18	(278,623)	(319,271)
Interest payment for lease liability	18	(55,772)	(22,426)
		<u>(832,378)</u>	<u>(1,223,849)</u>
<b>Net cash used in financing activities</b>			

# “AZERPOST” LIMITED LIABILITY COMPANY

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

		Year ended December 31, 2022	Year ended December 31, 2021
Effect of foreign exchange differences on cash and cash equivalents		(847,141)	(166,836)
NET INCREASE IN CASH AND CASH EQUIVALENTS		70,319,611	86,851,927
CASH AND CASH EQUIVALENTS, <i>at the beginning of the year</i>	14	<u>181,230,273</u>	<u>94,378,346</u>
CASH AND CASH EQUIVALENTS, <i>at the end of the year</i>	14	<u><u>251,549,884</u></u>	<u><u>181,230,273</u></u>

On behalf of the Management:

  
  
Afqan Jabbarov  
Chairman of the Board  
May 30, 2023  
Baku, the Republic of Azerbaijan

  
Isi Mustafayev  
Board Member  
May 30, 2023  
Baku, the Republic of Azerbaijan

The notes on pages 9-52 form an integral part of these financial statements.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (In Azerbaijani Manats)

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### 1. THE COMPANY AND ITS OPERATIONS

#### *Corporate Information*

“Azerpost” Limited Liability Company (the “Company”), formerly the Azerpost State Enterprise, is the national postal operator of the Republic of Azerbaijan, established by order 151 of September 23, 1999 of the Ministry of Communications of the Republic of Azerbaijan “On the continuation of reforms in postal services and the improvement of the structure”. The Company was established on the basis of the Azerpost Production Association and is its legal successor. By order № 145 of August 31, 2009 of the Ministry of Communication and Information Technology (“MCIT”), organizational- legal form of Azerpost SE was changed and it turned into “Azerpost” LLC. The charter of “Azerpost” LLC was approved by the Ministry of Justice on September 15, 2009 and was registered under the number 9900037711 by the Office of State Registration of Commercial Legal Entities Tax Department of Baku City of the Ministry of Taxes. 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 Street, AZ1000, 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 as at December 31, 2022.

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 Service on Property Issues under the Ministry of Economy of the Republic of Azerbaijan with 100% ownership.

#### **Merger of “Azermarka” LLC to the Company**

On September 1, 2021 “Azermarka” LLC merged with the Company according to the Decree of #1325 of the President of the Republic of Azerbaijan dated April 27, 2021. As both entities were under the common control of the Government, assets and liabilities of “Azermarka” LLC were combined to the Company with the remaining net asset balance as of the merger date.

The unaudited statement of the financial position of “Azermarka” LLC as at the transfer date, September 1, 2021 as presented in Azerbaijani Manats:



# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

	September 1, 2021 (unaudited)
<b>ASSETS</b>	
<b>Non-current assets:</b>	
Property, plant and equipment	37,666
<b>Total non-current assets</b>	<b>37,666</b>
<b>Current assets:</b>	
Cash and cash equivalents	10,295
Trade and other receivables	68,565
Inventories	788,287
Prepayments	3,250
<b>Total current assets</b>	<b>870,397</b>
<b>TOTAL ASSETS</b>	<b>908,063</b>
<b>LIABILITIES AND EQUITY</b>	
<b>LIABILITIES:</b>	
Trade and other payables	226,539
Tax and other than income tax payable	65,003
<b>Total liabilities</b>	<b>291,542</b>
<b>EQUITY:</b>	
Share capital	13,219
Retained earnings	603,302
<b>Total equity</b>	<b>616,521</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>908,063</b>

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The financial statements have been prepared under the historical cost convention unless described otherwise in the accounting policy below. The financial statements are presented in the Azerbaijani Manats (“AZN”), unless otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

### Going concern

These financial statements have been prepared on the assumption that the Company will be able to continue as a going concern for the foreseeable future.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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Management views the Company as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to the laws or regulations of the Republic of Azerbaijan. Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Company’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

Management’s assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

### **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 presentation currency of the Company is the national currency of the Republic of Azerbaijan, 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 December 31, 2022 (2021: 1.7000);
- 1 EUR to AZN was 1.8114 at December 31, 2022 (2021: 1.9265);
- 1 RUB to AZN was 0.0230 at December 31, 2022 (2021: 0.0229);
- 1 GBP to AZN was 2.0477 at December 31, 2022 (2021: 2.2925); and
- 1 SDR to AZN was 2.2624 at December 31, 2022 (2021: 2.3793).

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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### Key measurement terms

#### Current versus non-current classifications

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification criteria. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

#### 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 recognized 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 the 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 the 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 recognized in profit or loss for the year. An impairment loss recognized 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.

Depreciation is provided using the reducing balance method over the estimated useful lives of the related assets in accordance with the below rates:

Buildings and facilities	3-7%
Computers and equipment	10-25%
Furniture and fixtures	10-25%
Vehicles	10-25%
Others	10-20%
Right-of-use assets	depends on the lease term



# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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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 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 is 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 a 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. Capitalized 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.

### **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 recognized in profit or loss for the year.

### **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 recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, 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 carryforwards 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 the 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.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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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 carryforwards will be utilised.

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

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

### **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 recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method.

### **Investment securities**

The “investment securities” caption in the statement of financial position includes:

- debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

### **Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined on a 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.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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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.

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.

Amortized cost (“AC”) is the amount at which the financial instrument was recognized 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 amortization 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 amortized 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 amortized 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**

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.



# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 recognized 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 depend 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 the 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 statement of financial position net of the allowance for ECL.

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

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2022 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.

The Company applies the IFRS 9 general approach for investment securities to measure expected credit losses through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date);
- or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required for investment securities if the credit risk of that investment has increased significantly since initial recognition.

PD and LGD rates of relevant rating agencies are used for measuring the expected credit losses for investment securities.

### **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 recognized 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 a 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.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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### **Financial liabilities – derecognition**

Financial liabilities are derecognized 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 recognized 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 amortized 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 recognized 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 is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized 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.

### **Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred and are 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 payments 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.



# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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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 recognized 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.

### **Trade and other payables**

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

### **Charter capital and other reserves**

Charter 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 might provide funding to the operations of the Company in the form of capital contributions, which will be recognized in the Company’s statement of changes in equity at the fair value on the date of payment.

### **Revenue recognition**

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. In accordance with IFRS 15, a five-step model is as follows:

- Step 1: Identify the contract with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract;
- Step 5: Recognize revenue when the entity satisfies a performance obligation.

Revenue from contracts with customers is recognized as or when the Company satisfies a performance obligation by the construction contract. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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Revenue is income arising in the course of the Company’s ordinary activities. Revenue is recognized 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.

Sales of goods. Sales are recognized 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 recognized 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 recognized in the accounting period in which the services are rendered. Revenue is recognized 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 recognized.

### **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.

### **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, excluding financial services and international postal services. 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.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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### 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 recognized 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 an inflow of economic benefits is probable.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and disclosure of contingent liabilities during the reporting period.

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The most significant estimates relate to the depreciable lives of property and equipment, impairment of non-financial and financial assets, fair value of financial instruments and provision for obsolete inventory, provision for tax and legal contingencies and deferred taxation. Actual results could differ from these estimates.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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### **Judgments**

In the process of applying the Company’s accounting policies, the management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the financial statements.

### ***Useful life of property, plant and equipment and intangible assets***

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and intangible assets and on depreciation and amortization recognized in profit and loss accounts.

### ***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 29. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PO”), 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.

### ***Fair value measurement of financial instruments***

A number of the Company’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

### ***Inventory valuation***

Inventory is valued at a lower cost or net realizable value. The Company records an allowance to reduce the carrying value of obsolete and slow-moving inventory to net realizable value, when appropriate. The actual value realized on the disposition of such inventory may differ from the net realizable value; any such difference could have a significant impact on future operating results.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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### *Recoverability of VAT*

At each reporting date, the Company assesses the recoverability of VAT arising on the purchase of goods and services. The Company can only receive these amounts through an offset against future VAT liability or collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Company considers information from the internal tax department regarding projected VAT liability, correspondence with government tax authorities, and historical recovery experience.

The actual amount of VAT recovery could differ materially from the Company’s estimate and this could materially impact operating results.

### *Current taxes*

Azerbaijani tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Company’s entities may be assessed additional taxes, penalties and interest, which can be significant.

### *Deferred income tax asset recognition*

The recognized deferred income 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.

### *Valuation of lease liabilities and right-of-use assets*

The application of IFRS 16 requires to make judgments of right-of-use assets and lease liabilities. In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise renewal options (or not to exercise termination options). Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

## 4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Company has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the year ended December 31, 2022.

In May 2020, the IASB issued **Amendments to IFRS 3 “Business Combinations” – Reference to the Conceptual Framework**. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.



# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16.** In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37** – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

**IFRS 1 “First-time Adoption of International Financial Reporting Standards”** – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1.

**IFRS 9 “Financial Instruments” – Fees in the “10 percent” test for derecognition of financial liabilities.** As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

**IAS 41 “Agriculture” – Taxation in fair value measurements.** As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IAS 41 “Agriculture”. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

Unless otherwise disclosed, the new standards did not have a material effect on the financial statements of the Company.

## 5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Company in advance of their effective dates, the following Interpretations were in issue but not yet effective. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

**IFRS 17 “Insurance contracts”** – was issued in May 2017 and replaced IFRS 4 “Insurance contracts”. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 “Insurance Contracts” to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” have also been applied. This standard is not applicable to the Company.

**Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 –** In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgments, in which it provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

**Definition of Accounting Estimates – Amendments to IAS 8 –** In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

**Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 –** In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

IASB has issued “**Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)**” with **amendments** that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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On October 2022, IASB published “**Non-current Liabilities with Covenants (Amendments to IAS 1)**” to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. According to the amendment, only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024.

**IFRS 10 “Consolidated Financial Statements” and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Unless otherwise disclosed, the new standards are not expected to have a material effect on the financial statements of the Company.

## 6. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties are defined in IAS 24 “Related Party Disclosures”. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, 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. The Company’s immediate parent and the ultimate controlling party is the Government of the Republic of Azerbaijan.

The Company applied the exemption in paragraph 25 of IAS 24 “Related Party Disclosures” regarding the disclosure requirement for government-related entities.

A reporting entity is exempt from the disclosure requirements of paragraph 18 of IAS 24 “Related Party Disclosures” in relation to related party transactions and outstanding balances, including commitments, with:

- (a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- (b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

The nature of transactions with government-related entities includes the purchase of electricity, gas, petrol and receiving other services.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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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 Chairman of the Board, Board Members, and the Finance manager. Key management individuals are entitled to salaries and benefits in accordance with the approved payroll matrix. During 2022, the compensation of key management personnel totaled AZN 757,147 (2021: AZN 622,885).

As at December 31, 2022, the outstanding balances with related parties were as follows:

	<b>Entities under common control</b>
Gross amount of investment securities	122,982,578
ECL on investment securities	(391,063)
Gross amount of trade and other receivables	3,764,385
ECL on trade and other receivables	(10,114)
Trade and other payables	166,915
Borrowing	10,618,321
Customer accounts	110,112,200

The income and expense items with related parties for the year ended December 31, 2022 were as follows :

	<b>Entities under common control</b>
Revenue from other services	10,101,841
Revenue from services rendered	2,034,385
Purchases of materials, consumables and services	2,785,240
Gain from investing activities	2,920,794

During the year ended December 31, 2022, the property and equipment with a net book value of AZN 982,509 were transferred to the government free of charge.

As at December 31, 2021, the outstanding balances with related parties were as follows:

	<b>Entities under common control</b>
Gross amount of investment securities	31,311,115
ECL on investment securities	(93,546)
Gross amount of trade and other receivables	303,133
ECL on trade and other receivables	(3,608)
Trade and other payables	167,375
Borrowing	10,618,321
Customer accounts	100,391,039

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

The income and expense items with related parties for the year ended December 31, 2021 were as follows:

	<b>Entities under common control</b>
Revenue from other services	8,114,308
Revenue from services rendered	1,773,967
Purchases of materials and consumables	1,273,490
Gain from investing activities	2,627,629

### 7. RECLASSIFICATION

The Group management made certain reclassifications to the prior year’s financial statements as the current presentation provides a better and correct view.

The effect of reclassifications on the financial statements was as follows:

Statement of comprehensive income for the year ended December 31, 2021:

	<b>Notes</b>	<b>December 31, 2021 (as reported)</b>	<b>Reclassification</b>	<b>December 31, 2021 (reclassified)</b>
Operating expenses	(a)	(23,505,423)	(620,226)	(24,125,649)
General and administrative expenses	(b)	(20,382,804)	808,084	(19,574,720)
Loss on dealing operations	(a)	-	(187,858)	(187,858)
<b>Total</b>		<b>(43,888,227)</b>	<b>-</b>	<b>(43,888,227)</b>

- a) Reclassification of charge on dealing operations from other category of operating expenses to loss on dealing operations.
- b) During the year ended December 31, 2022, it has been identified that settlements with plastic cards in the amount of AZN 808,084 should have been reclassified from general and administrative expenses to specific category of operating expenses as at December 31, 2021.



## “AZERPOST” LIMITED LIABILITY COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

#### 8. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and facilities	Computers and equipment	Furniture/ fixtures	Vehicles	Other	Total
<b>Initial cost</b>						
January 1, 2021	58,989,325	18,509,552	7,806,078	7,215,246	173,071	92,693,272
Additions	370,324	156,005	1,496	280,203	3,300	811,328
Disposals	-	(93,795)	(125,112)	-	(19,585)	(238,492)
December 31, 2021	<u>59,359,649</u>	<u>18,571,762</u>	<u>7,682,462</u>	<u>7,495,449</u>	<u>156,786</u>	<u>93,266,108</u>
Additions	612,774	419,435	121,377	626,082	-	1,779,668
Disposals	(1,884,328)	(35,485)	(23,927)	(427,477)	(1,139)	(2,372,356)
December 31, 2022	<u>58,088,095</u>	<u>18,955,712</u>	<u>7,779,912</u>	<u>7,694,054</u>	<u>155,647</u>	<u>92,673,420</u>
<b>Accumulated depreciation</b>						
January 1, 2021	(23,437,182)	(13,416,061)	(6,312,527)	(5,308,683)	(129,300)	(48,603,753)
Charge for the year	(2,476,287)	(1,196,708)	(257,630)	(459,609)	(17,107)	(4,407,341)
Eliminated on disposal	-	93,795	125,112	-	19,585	238,492
December 31, 2021	<u>(25,913,469)</u>	<u>(14,518,974)</u>	<u>(6,445,045)</u>	<u>(5,768,292)</u>	<u>(126,822)</u>	<u>(52,772,602)</u>
Charge for the year	(2,358,772)	(993,588)	(299,191)	(454,269)	(4,573)	(4,110,393)
Eliminated on disposal	942,211	31,580	21,676	393,473	907	1,389,847
December 31, 2022	<u>(27,330,030)</u>	<u>(15,480,982)</u>	<u>(6,722,560)</u>	<u>(5,829,088)</u>	<u>(130,488)</u>	<u>(55,493,148)</u>
<b>Net book value:</b>						
December 31, 2022	<u>30,758,065</u>	<u>3,474,730</u>	<u>1,057,352</u>	<u>1,864,966</u>	<u>25,159</u>	<u>37,180,272</u>
December 31, 2021	<u>33,446,180</u>	<u>4,052,788</u>	<u>1,237,417</u>	<u>1,727,157</u>	<u>29,964</u>	<u>40,493,506</u>

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

#### 9. RIGHT-OF-USE ASSETS

	Buildings	Total
Carrying amount at January 1, 2021	382,313	382,313
Addition	108,837	108,837
Modification	547,176	547,176
Disposal	(35,274)	(35,274)
Depreciation charge	(307,222)	(307,222)
Carrying amount at December 31, 2021	<u>695,830</u>	<u>695,830</u>
Addition	228,365	228,365
Disposal	(2,572)	(2,572)
Depreciation charge	(297,326)	(297,326)
Carrying amount at December 31, 2022	<u>624,297</u>	<u>624,297</u>

## “AZERPOST” LIMITED LIABILITY COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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#### 10. INTANGIBLE ASSETS

	<b>Intangible assets</b>
<b>Initial cost</b>	
<b>January 1, 2021</b>	<b>3,874,703</b>
Additions	88,716
<b>December 31, 2021</b>	<b>3,963,419</b>
Additions	552,025
<b>December 31, 2022</b>	<b>4,515,444</b>
<b>Accumulated amortization</b>	
<b>January 1, 2021</b>	<b>(3,357,940)</b>
Amortization charge	(375,536)
<b>December 31, 2021</b>	<b>(3,733,476)</b>
Amortization charge	(177,669)
<b>December 31, 2022</b>	<b>(3,911,145)</b>
<b>Net book value:</b>	
<b>December 31, 2022</b>	<b>604,299</b>
<b>December 31, 2021</b>	<b>229,943</b>

As at December 31, 2022 and 2021, the intangible assets comprised the Company’s financial accounting system upgrade and software licenses.

#### 11. PREPAYMENT FOR PROPERTY, PLANT AND EQUIPMENT

Prepayments for non-current assets represent advance payments in the amount of AZN 328,315 to suppliers of property and equipment as at December 31, 2022 (2021: AZN 594,654).

#### 12. INCOME TAXES

The Company measures and records its current income tax payable and its tax bases related to assets and liabilities in accordance with the statutory tax regulations of the Republic of Azerbaijan where the Company operates, which differ from IFRS.

The Company is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2022 and 2021 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases’ differences for certain assets.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

Tax legislation of the Republic of Azerbaijan region in particular may give rise to varying interpretations and amendments. In addition, as management’s interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result, the Company may be assessed additional taxes, penalties and interest which could be material for these financial statements.

Temporary differences as at December 31, 2022 and 2021 comprise:

	December 31, 2022	December 31, 2021
<b>Deductible temporary differences:</b>		
Investment securities	7,554,125	4,089,334
Property, plant and equipment	3,489,662	1,918,540
Trade and other receivables	3,311,663	2,401,319
Intangible assets	499,016	642,645
Lease liability	285,617	232,692
Cash and cash equivalents	124,552	124,552
Prepayments for non-current assets	59,158	59,158
Tax losses carry forward	-	9,268,105
Inventories	-	123,908
Borrowings	-	22,426
	<u>15,323,793</u>	<u>18,882,679</u>
<b>Taxable temporary differences:</b>		
Right-of-use assets	(319,789)	(248,256)
Inventories	(32,143)	-
Trade and other payables	(20,315)	(20,315)
	<u>(372,247)</u>	<u>(268,571)</u>
Net deductible temporary differences	14,951,546	18,614,108
Net deferred tax asset at the statutory tax rate (20%)	2,990,309	3,722,822
Allowance for valuation	(2,541,763)	(3,276,083)
	<u>448,546</u>	<u>446,739</u>
<b>Net deferred income tax asset</b>		

Relationships between tax (expenses)/benefit and accounting profit/(loss) for the year ended December 31, 2022 and 2021 are explained as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
<b>Profit/(loss) before income tax</b>	<u>4,501,923</u>	<u>(5,562,924)</u>
Statutory tax rate	20%	20%
<b>Theoretical income tax expense at the statutory tax rate</b>	<u>(900,385)</u>	<u>1,112,585</u>
Change in allowance for valuation	734,320	(907,907)
Tax effect of permanent differences	-	(80,872)
<b>Total income tax (expense)/benefit reported in the statement of comprehensive income</b>	<u>(166,065)</u>	<u>123,806</u>

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

Differences between IFRS and statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	Year ended December 31, 2022	Year ended December 31, 2021
Current income tax expense	(167,872)	-
Change in deferred income tax asset	<u>1,807</u>	<u>123,806</u>
<b>Income tax (expense)/benefit</b>	<b><u>(166,065)</u></b>	<b><u>123,806</u></b>
	December 31, 2022	December 31, 2021
<b>Deferred income tax asset</b>		
<b>Beginning of the year</b>	<b>446,739</b>	<b>322,933</b>
Change in the deferred income tax asset for the period charged to profit and loss accounts	<u>1,807</u>	<u>123,806</u>
<b>End of the year</b>	<b><u>448,546</u></b>	<b><u>446,739</u></b>

### 13. INVESTMENT SECURITIES

As at December 31, 2022 and 2021 the Company's balances of investments are as follows:

	December 31, 2022	December 31, 2021
<b>Investment securities measured at amortized cost:</b>		
Notes issued by Turkey Government	140,089,896	119,200,131
Notes issued by Azerbaijan Government	103,423,276	7,336,714
Notes issued by the United States	25,339,928	-
Notes issued by Italy	19,313,249	-
Notes issued by Ukraine Government	9,050,770	8,963,465
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	6,771,787	18,703,027
Notes issued by Romania	3,454,004	-
Repurchase agreement issued by the Ministry of Finance of the Republic of Azerbaijan	12,787,515	5,271,374
Notes issued by Export Credit Bank of Turkey	-	28,335,097
Notes issued by Ziraat Bank of Turkey	<u>-</u>	<u>6,931,262</u>
<b>Less: Allowance for expected credit losses</b>	<b><u>(7,554,125)</u></b>	<b><u>(1,918,540)</u></b>
<b>Net investment securities</b>	<b><u>312,676,300</u></b>	<b><u>192,822,530</u></b>

During the year ended December 31, 2022 the Company has investments in government securities and state banks with maturities ranging from 1 to 7 years with interest to nominal rate of 1.70% to 9.71% (2021: 1.20% to 7.50%).

## “AZERPOST” LIMITED LIABILITY COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

	December 31, 2022	December 31, 2021
<b>Investment securities measured at amortized cost:</b>		
B3	137,521,647	152,791,351
Ba1	122,612,515	31,217,569
Aaa	25,339,017	-
Baa3	22,728,631	-
Caa3	4,474,490	8,813,610
	<u>312,676,300</u>	<u>192,822,530</u>
<b>Total investment securities</b>	<b><u>312,676,300</u></b>	<b><u>192,822,530</u></b>

All ratings are based on Moody’s rating system.

During the year ended December 31, 2022, interest income on investment securities and gain from the sale of investment securities were AZN 10,307,836 and AZN 4,234,302, respectively.

For the purposes of ECL measurement investment securities are included in Stage 1.

The following table explains the changes in the credit loss allowance for investment securities under the general ECL model between the beginning and the end of the annual period:

	December 31, 2022	December 31, 2021
<b>Allowance for investment securities as at January 1</b>	<b>(1,918,540)</b>	-
Increase in credit loss allowance recognized in profit or loss during the year	<u>(5,635,585)</u>	<u>(1,918,540)</u>
<b>Total credit loss allowance charge in profit or loss for the year</b>	<b><u>(5,635,585)</u></b>	<b><u>(1,918,540)</u></b>
<b>Allowance for expected credit losses on investment securities as at December 31</b>	<b><u>(7,554,125)</u></b>	<b><u>(1,918,540)</u></b>

#### 14. CASH AND CASH EQUIVALENTS

	December 31, 2022	December 31, 2021
Cash on hand	29,868,284	17,473,527
Cash balances with the CBAR	172,238,480	129,072,414
Correspondent accounts with other banks	42,595,702	28,169,724
Cash in ATM	5,929,089	5,856,203
Cash in transit	918,329	658,405
	<u>251,549,884</u>	<u>181,230,273</u>
<b>Total cash and cash equivalents</b>	<b><u>251,549,884</u></b>	<b><u>181,230,273</u></b>

For the purposes of ECL measurement cash and cash equivalent balances are included in Stage 1. The ECL for those balances represents an insignificant amount, therefore the Company did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 29 for the ECL measurement approach.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

### 15. TRADE AND OTHER RECEIVABLES

	December 31, 2022	December 31, 2021
Trade receivables	14,746,693	13,502,248
Other financial receivables	-	49,104
Less expected credit loss allowance	<u>(2,734,172)</u>	<u>(1,823,828)</u>
<b>Total financial assets within trade and other receivables, net</b>	<b><u>12,012,521</u></b>	<b><u>11,727,524</u></b>
Settlements with “Azerlottery” OJSC	3,709,834	-
VAT recoverable	1,600,554	1,462,673
Prepayments	186,156	131,560
Settlements with “Millikart” LLC	175,649	14,889
Other receivables	<u>705,163</u>	<u>1,195,775</u>
<b>Total non-financial receivables</b>	<b><u>6,377,356</u></b>	<b><u>2,804,897</u></b>
<b>Total trade and other receivables, net</b>	<b><u>18,389,877</u></b>	<b><u>14,532,421</u></b>

As at December 31, 2022 trade receivables of AZN 7,004,668 net of ECL provisions are denominated in foreign currency (2021: AZN 5,332,000).

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 months before December 31, 2022 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 the provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due.

<i>In % of gross value</i>	December 31, 2022			December 31, 2021		
	Gross carrying amount	Lifetime ECL	Net carrying value	Gross carrying amount	Lifetime ECL	Net carrying Value
<b>Trade receivables</b>						
Current	8,260,459	(49,563)	8,210,896	11,149,378	(455,766)	10,693,612
Less than 30 days overdue	2,106,313	(22,857)	2,083,456	871,461	(158,643)	712,818
30 to 90 days overdue	583,850	(11,287)	572,563	263,728	(84,814)	178,914
91 to 180 days overdue	550,337	(34,565)	515,772	211,008	(126,605)	84,403
181 to 360 days overdue	864,065	(234,231)	629,834	21,681	(13,008)	8,673
Over 360 days overdue	<u>2,381,669</u>	<u>(2,381,669)</u>	-	<u>984,992</u>	<u>(984,992)</u>	-
<b>Total</b>	<b><u>14,746,693</u></b>	<b><u>(2,734,172)</u></b>	<b><u>12,012,521</u></b>	<b><u>13,502,248</u></b>	<b><u>(1,823,828)</u></b>	<b><u>11,678,420</u></b>



# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

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

	December 31, 2022	December 31, 2021
<b>Allowance for expected credit losses on trade receivables as at January 1</b>	<b>(1,823,828)</b>	<b>(1,629,145)</b>
Expected credit losses on trade and other receivables	(910,344)	(230,189)
Write off of the trade and other receivables	-	35,506
<b>Total credit loss allowance charge in profit or loss for the year</b>	<b>(910,344)</b>	<b>(194,683)</b>
<b>Allowance for expected credit losses on trade receivables as at December 31</b>	<b>(2,734,172)</b>	<b>(1,823,828)</b>

### 16. INVENTORIES

	December 31, 2022	December 31, 2021
Goods for resale	797,446	1,662,650
Materials and consumables	1,127,871	1,495,880
<b>Total inventories</b>	<b>1,925,317</b>	<b>3,158,530</b>

### 17. BORROWINGS

	December 31, 2022	December 31, 2021
Term loans	10,618,321	11,646,393
<b>Total borrowings</b>	<b>10,618,321</b>	<b>11,646,393</b>

The Company’s borrowings were consist of the borrowing from the International Development Association through the Ministry of Digital Development and Transport of the Republic of Azerbaijan with an annual interest rate of 0.75% with a maturity date of November 15, 2039 and the borrowing from the Ministry of Finance the Republic of Azerbaijan with zero interest rate. The borrowings are denominated in USD. There is no collateral on the borrowings. The borrowings are carried at amortized cost. The fair value of the borrowings equals their carrying amount, as the impact of discounting is not significant.

During the year ended December 31, 2022, the Company fully repaid borrowing from the International Development Association.

Although the repayment schedule has not yet been agreed with the Ministry of Finance of the Republic of Azerbaijan. The management believes that the repayment of borrowing from the Ministry of Finance of the Republic of Azerbaijan will be made based on the repayment schedule of the loan from the International Development Association.

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

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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

	December 31, 2022	December 31, 2021
Current portion	-	840,636
Non-current portion	<u>10,618,321</u>	<u>10,805,757</u>
<b>Total borrowings</b>	<b><u>10,618,321</u></b>	<b><u>11,646,393</u></b>

### 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:

	Current portion	Non-current portion	As at December 31, 2022
<b>January 1, 2022</b>	<b>840,636</b>	<b>10,805,757</b>	<b>11,646,393</b>
<b>Cash flow</b>			
Proceeds	4,417,600	-	4,417,600
Principal paid	(4,881,572)	-	(4,881,572)
Interest paid	(34,011)	-	(34,011)
<b>Non-cash changes</b>			
Term charge	187,436	(187,436)	-
Interest expense	34,011	-	34,011
Foreign exchange gain	(564,100)	-	(564,100)
<b>December 31, 2022</b>	<b><u>-</u></b>	<b><u>10,618,321</u></b>	<b><u>10,618,321</u></b>
	<b>Current portion</b>	<b>Non-current portion</b>	<b>As at December 31, 2021</b>
<b>January 1, 2021</b>	<b>870,590</b>	<b>11,645,638</b>	<b>12,516,228</b>
<b>Cash flow</b>			
Principal paid	(869,835)	-	(869,835)
Interest paid	(12,317)	-	(12,317)
<b>Non-cash changes</b>			
Term charge	839,881	(839,881)	-
Interest expense	12,317	-	12,317
<b>December 31, 2021</b>	<b><u>840,636</u></b>	<b><u>10,805,757</u></b>	<b><u>11,646,393</u></b>

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

### 18. LEASE LIABILITIES

	December 31, 2022	December 31, 2021
Lease liabilities (current)	321,985	272,103
Lease liabilities (non-current)	<u>327,782</u>	<u>430,589</u>
<b>Total lease liabilities</b>	<b><u>649,767</u></b>	<b><u>702,692</u></b>

The present value of the net minimum lease payments as at December 31, 2022 and 2021 are as follows:

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	335,702	368,274	703,976
Finance charges	<u>(13,717)</u>	<u>(40,492)</u>	<u>(54,209)</u>
<b>Net present value as at December 31, 2022</b>	<b><u>321,985</u></b>	<b><u>327,782</u></b>	<b><u>649,767</u></b>

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	283,555	501,092	784,647
Finance charges	<u>(11,452)</u>	<u>(70,503)</u>	<u>(81,955)</u>
<b>Net present value as at December 31, 2021</b>	<b><u>272,103</u></b>	<b><u>430,589</u></b>	<b><u>702,692</u></b>

A reconciliation of the opening and closing amounts of lease liabilities with relevant cash and non-cash changes from financing activities is stated below:

	Current portion	Non-current portion	As at December 31, 2022
<b>January 1, 2022</b>	<b>272,103</b>	<b>430,589</b>	<b>702,692</b>
<b>Cash flow</b>			
Lease paid	(334,395)	-	(334,395)
<b>Non-cash changes</b>			
Term charge	331,172	(331,172)	-
Addition	-	228,365	228,365
Disposal	(2,667)	-	(2,667)
Interest expense	<u>55,772</u>	<u>-</u>	<u>55,772</u>
<b>December 31, 2022</b>	<b><u>321,985</u></b>	<b><u>327,782</u></b>	<b><u>649,767</u></b>

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

	Current portion	Non-current portion	As at December 31, 2021
<b>January 1, 2021</b>	<b>343,535</b>	<b>62,695</b>	<b>406,230</b>
<b>Cash flow</b>			
Lease paid	(341,697)	-	(341,697)
<b>Non-cash changes</b>			
Term charge	(259,057)	259,057	-
Addition	-	108,837	108,837
Disposal	(40,280)		(40,280)
Modification	547,176	-	547,176
Interest expense	22,426	-	22,426
<b>December 31, 2021</b>	<b>272,103</b>	<b>430,589</b>	<b>702,692</b>

### 19. TRADE AND OTHER PAYABLES

	December 31, 2022	December 31, 2021
Funds in settlement	9,200,126	8,294,793
Trade payables	8,428,023	7,961,282
Amount payable to utility service providers	3,492,367	3,731,570
Other payables	642,242	383,433
<b>Total financial payables within trade and other payables</b>	<b>21,762,758</b>	<b>20,371,078</b>
Advance received	244,084	213,618
Income tax payable	167,871	-
<b>Total trade and other payables</b>	<b>22,174,713</b>	<b>20,584,696</b>

### 20. CUSTOMER ACCOUNTS

	December 31, 2022	December 31, 2021
<b>State and public organisations</b>		
Current/settlement accounts	368,562,525	182,990,167
<b>Other legal entities</b>		
Current/settlement accounts	171,846,245	171,619,276
<b>Individuals</b>		
Current/demand accounts	159,115	189,370
<b>Total customer accounts</b>	<b>540,567,885</b>	<b>354,798,813</b>

### 21. CHARTER CAPITAL

The Company's registered charter capital is AZN 73,357,719 as at December 31, 2022 (2021: AZN 73,357,719).

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

The Company’s ownership structure as at December 31, 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
State Service on Property Issues under the Ministry of Economy of the Republic of Azerbaijan	100%	100%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## 22. 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:

	December 31, 2022	December 31, 2021
Revenue from financial services	23,250,345	12,136,209
Revenue from postal services	20,354,839	18,027,350
Revenue from other services	11,279,753	10,188,130
<b>Total revenue from contracts with customers</b>	<b>54,884,937</b>	<b>40,351,689</b>

Revenue from postal services, financial services and other services by major product lines and types of services comprises:

	December 31, 2022	December 31, 2021
Revenue from translation of foreign currency	10,381,311	2,983,559
Fees from international money transfers	5,622,549	1,955,259
Revenue from cash transactions on plastic cards	2,401,208	1,404,985
Fees from internal money transfers	2,321,119	4,201,727
Commission from non-cash currency exchange	1,586,430	654,439
Fees from money transfers on current accounts	517,855	483,522
Sales of plastic cards	228,366	203,850
Commission from cash currency exchange	142,229	165,793
Fees from withdrawing cash from current accounts	41,004	45,750
Sales of a checkbook	998	1,751
Fees from opening current accounts	367	3,703
Other revenue from financial services	6,909	31,871
<b>Total revenue from financial services</b>	<b>23,250,345</b>	<b>12,136,209</b>



# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

	December 31, 2022	December 31, 2021
Sales of postal stamps	6,992,657	5,381,207
International mail exchange services	4,411,036	4,895,901
Packages	2,381,499	2,215,499
The express mail services	1,752,851	1,169,797
Special communications and courier services	1,579,549	1,338,703
International small packages	844,927	201,678
Fee for submission of international postal items for customs clearance	811,588	846,873
Telegraph services fees	613,836	597,092
Sales of envelopes on branded envelopes	187,833	457,791
Precious letters and envelopes	43,282	153,056
Courier services	20,250	20,327
Other revenue from postal services	715,531	749,426
	<u>20,354,839</u>	<u>18,027,350</u>
<b>Total revenue from postal services</b>	<b>20,354,839</b>	<b>18,027,350</b>

	December 31, 2022	December 31, 2021
Commission from utility (Gas)	3,450,323	3,359,499
Commission from utility (Electricity)	1,902,815	1,909,107
Receipt of tax payments	1,319,574	585,820
Commission from sale of lottery	1,256,425	-
Commission from local telephone subscription	487,967	590,618
Revenue from press sales, subscription and delivery	474,370	353,956
Commission from TV and internet subscription	420,368	-
Commission from utility (Water)	385,510	393,928
Commission from long-distance calls	297,484	448,847
Collection of fines by the State Traffic Police	239,546	302,012
Collection of budget payments of the Municipality	175,707	-
Collection of budget payments by the State Customs Committee	165,498	155,616
Subscription fee	92,871	92,775
Rental income	69,582	67,581
Insurance services	51,949	12,268
Collection of budget payments of the Ministry of Internal Affairs	624	368,861
Other revenue from other services	489,140	1,547,242
	<u>11,279,753</u>	<u>10,188,130</u>
<b>Total revenue from other services</b>	<b>11,279,753</b>	<b>10,188,130</b>

### 23. OPERATING EXPENSES

	December 31, 2022	December 31, 2021
Staff costs	18,053,832	15,945,426
Distribution and conveyance costs	4,240,554	4,203,605
Settlements with plastic cards	1,535,089	808,084
Materials and supplies	1,130,746	973,666
Fuel expenses	610,978	799,254
Data processing costs	328,347	562,747
Purchase of postmarks	323,482	629,814
Cost of payment cards	111,290	126,774
Other	159,515	76,279
	<u>26,493,833</u>	<u>24,125,649</u>
<b>Total operating expenses</b>	<b>26,493,833</b>	<b>24,125,649</b>

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

### 24. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2022	Year ended December 31, 2021
Staff costs	13,272,688	13,238,740
Professional services	2,740,043	1,296,729
Repair and maintenance	1,621,434	853,300
Security expenses	1,203,645	960,172
Taxes other than income tax	1,171,814	434,673
Utility expenses	750,613	750,957
Communication expense	702,948	569,259
Membership fees	576,921	358,272
Bank charges	526,502	567,240
Stationary expense	256,568	75,847
Business trip expenses	210,767	224,401
Rent expenses	12,960	30,650
Other	210,721	214,480
	<u>23,257,624</u>	<u>19,574,720</u>
<b>Total general and administrative expenses</b>	<b><u>23,257,624</u></b>	<b><u>19,574,720</u></b>

### 25. OTHER INCOME

	December 31, 2022	December 31, 2021
Government grant	<u>113,700</u>	<u>1,174,713</u>
<b>Total other income</b>	<b><u>113,700</u></b>	<b><u>1,174,713</u></b>

### 26. FINANCE EXPENSE

	Year ended December 31, 2022	Year ended December 31, 2021
Interest expenses on borrowings	34,011	12,317
Interest expenses on lease liabilities	<u>55,772</u>	<u>22,426</u>
<b>Total finance expense</b>	<b><u>89,783</u></b>	<b><u>34,743</u></b>

### 27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

#### Commitments

There were no financial guarantees provided by the Company as at December 31, 2022 and 2021. The Company has no capital expenditure commitments as well as at reporting date.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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### Contingencies

#### Financial commitments and contingencies

According to the decision of the Financial Markets Control Chamber of the Republic of Azerbaijan (liquidated) dated July 7, 2017, the Company must ensure that the minimum amount of authorized capital, liquidity indicators and open currency position are constantly maintained at the level of the following regulations during its activity in the field of financial services:

Minimum amount of authorized capital	20,000,000 AZN
Daily instant liquidity ratio	at least 50 %

#### The open currency positions:

Free-floating currency separately	5% on each
Closed currency separately	3% for each
Open currency position on freely floating currencies	10% aggregate
Open currency position on closed currency	7% aggregate

### 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 a 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 December 31, 2022 and 2021, 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 December 31, 2001 fiscal periods remain 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 December 31, 2022 no provision for potential tax liabilities had been recorded (December 31, 2021: no provision).

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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### Operating environment of the Company

The Company’s operations are conducted in the Republic of Azerbaijan. The Company is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan.

Azerbaijan economy also has significant exposure to the level of international energy prices. Crude oil prices increased in the first half of the year because of supply concerns however starting from the second half of the year oil prices generally decreased as concerns about a possible economic recession reduced demand. The Brent crude oil spot price averaged USD 100 per barrel in 2022. Strong oil prices supported the economic growth of the country.

The depreciation of Azerbaijani Manat in 2015-2016 years has led to significant uncertainties in business environment, therefore government took all required actions to keep the exchange rate stable over the past 5 years. As a result, continuous fluctuation in global oil prices did not affect the local currency and therefore did not increase the uncertainty in the business environment. The COVID-19 coronavirus pandemic affected businesses significantly in 2020, however, after a successful vaccination campaign of the government majority of businesses steadily returned to their normal activities during 2021 and the first half of 2022. The sustainability of the cease-fire arrangement over the Karabakh region also improves the business environment as there are number of government-led projects to attract investment and develop the territories released from occupation.

GDP reached AZN 133.8 billion (USD 78.7 billion) in 2022 with 4.6% growth compared to 2021. During 2022 foreign trade turnover of the Republic of Azerbaijan reached about USD 52.69 billion of which export equaled to USD 38.15 billion and import equaled USD 14.54 billion according to the statistics of the State Customs Committee.

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated the rating of the Republic of Azerbaijan as “BB+”. Moody’s Investors Service set a “Ba1” credit rating for the country.

### 28. MANAGEMENT OF CAPITAL

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

As at December 31, 2022 the Company was in compliance with regulatory requirements set by the Ministry of Digital Development and Transport of the Republic of Azerbaijan in respect of postal activities.

### 29. 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 amortized cost.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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 at December 31, 2022:

	<b>Amortized cost</b>
<b>Assets</b>	
<b><i>Cash and cash equivalents</i></b>	
- Cash on hand	29,868,284
- Cash in transit	918,329
- Cash in ATM	5,929,089
- Cash balances with CBAR	172,238,480
- Correspondent accounts with other banks	42,595,702
<b><i>Investments held to maturity</i></b>	
- Investment securities	312,676,300
<b><i>Trade and other receivables</i></b>	
- Trade receivables	12,012,521
- Other financial receivables	-
<b>Total financial assets</b>	<b><u>576,238,705</u></b>

During 2022 all of the Company’s financial liabilities are carried at amortized 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 at December 31, 2021:

	<b>Amortized cost</b>
<b>Assets</b>	
<b><i>Cash and cash equivalents</i></b>	
- Cash on hand	17,473,527
- Cash in transit	658,405
- Cash in ATM	5,856,203
- Cash balances with CBAR	129,072,414
- Correspondent accounts with other banks	28,169,724
<b><i>Investments held to maturity</i></b>	
- Investment securities	192,822,530
<b><i>Trade and other receivables</i></b>	
- Trade receivables	11,678,420
- Other financial receivables	49,104
<b>Total financial assets</b>	<b><u>385,780,327</u></b>

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

During 2021 all of the Company’s financial liabilities are carried at amortized cost.

### 30. 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 risks), 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 the 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 borrowings that are denominated in a currency other than the respective functional currencies of the Company.

	<b>As at December 31, 2022</b>		
	<b>Monetary financial assets</b>	<b>Monetary financial liabilities</b>	<b>Net balance sheet position</b>
Azerbaijani Manats	259,480,820	(259,955,782)	(474,962)
US Dollars	309,187,594	(302,629,946)	6,557,648
Euros	1,743,337	(8,349,522)	(6,606,185)
Russian Rubles	317,507	-	317,507
British Pound Sterlings	124,029	-	124,029
SDR	5,385,418	(2,663,481)	2,721,937
<b>Total</b>	<b><u>576,238,705</u></b>	<b><u>(573,598,731)</u></b>	<b><u>2,639,974</u></b>

	<b>As at December 31, 2021</b>		
	<b>Monetary financial assets</b>	<b>Monetary financial liabilities</b>	<b>Net balance sheet position</b>
Azerbaijani Manats	71,682,373	(85,782,869)	(14,100,496)
US Dollars	307,286,321	(288,389,467)	18,896,854
Euros	2,727,806	(10,643,964)	(7,916,158)
Russian Rubles	315,850	-	315,850
SDR	3,767,977	(2,702,676)	1,065,301
<b>Total</b>	<b><u>385,780,327</u></b>	<b><u>(387,518,976)</u></b>	<b><u>(1,738,649)</u></b>

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

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

The following significant exchange rates applied during the year:

	December 31, 2022	December 31, 2021
1 USD	1.7000	1.7000
1 EUR	1.8114	1.9265
1 RUB	0.0230	0.0229
1 GBP	2.0477	2.2925
1 SDR	2.2624	2.3793

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:

	December 31, 2022 Impact on loss before tax	December 31, 2021 Impact on loss before tax
US Dollar strengthening by 20%	1,311,530	3,779,371
US Dollar weakening by 20%	(1,311,530)	(3,779,371)
Euro strengthening by 20%	(1,321,237)	(1,583,232)
Euro weakening by 20%	1,321,237	1,583,232
Russian Rubles strengthening by 20%	63,501	63,170
Russian Rubles weakening by 20%	(63,501)	(63,170)
British pound sterling strengthening by 20%	24,806	-
British pound sterling weakening by 20%	(24,806)	-
SDR strengthening by 20%	544,387	213,060
SDR weakening by 20%	(544,387)	(213,060)

### 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 summarizes 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, categorized by the earlier of contractual interest repricing or maturity dates.

	Demand and less than 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Total
Total financial assets	276,349,165	66,612,948	85,132,132	148,144,460	576,238,705
Total financial liabilities	(562,357,475)	(134,160)	(160,993)	(10,946,103)	(573,598,731)
<b>Net interest sensitivity gap at December 31, 2022</b>	<b>(286,008,310)</b>	<b>66,478,788</b>	<b>84,971,139</b>	<b>137,198,357</b>	<b>2,639,974</b>
Total financial assets	198,228,898	52,092,841	41,958,368	93,500,220	385,780,327
Total financial liabilities	(375,192,566)	(533,694)	(556,370)	(11,236,346)	(387,518,976)
<b>Net interest sensitivity gap at December 31, 2021</b>	<b>(176,963,668)</b>	<b>51,559,147</b>	<b>41,401,998</b>	<b>82,263,874</b>	<b>(1,738,649)</b>

The management plans to settle this gap by selling investment securities before its original maturity date which have high liquidity on the secondary market.



# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

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 its 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 by taking into account its financial position, past experience and other factors and the management does not expect any losses from non-performance by these counterparties in the reporting periods.

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

	December 31, 2022	December 31, 2021
<b>Trade and other receivables</b>		
- Trade receivables	12,012,521	11,678,420
- Other financial receivables	-	49,104
<b>Investments held to maturity</b>		
- Investment securities	312,676,300	192,822,530
<b>Cash and cash equivalents</b>		
- Bank balances payable on demand	214,834,182	157,242,138
	<u>539,523,003</u>	<u>361,792,192</u>

### Credit risk grading system

For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies risk grades estimated by external international rating agencies (Standard & Poor’s – “S&P”, Fitch, Moody’s).

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

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

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

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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 trade receivables and investments held to maturity 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 months before December 31, 2022 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 the billing of the final settlement.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

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

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

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

PD is 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 the migration matrix is used for ECL measurement.

Forward-looking approach for simplified approach for trade receivables.

- PD and LGD estimations for accounts receivables are based on history from the last 36 months so the most recent macroeconomic environment is essentially already reflected in the estimation process;
- Expected environment in the near future is similar to that reflected in the time series included in the PD and LGD estimation;
- Due dates for trade receivables of the Company are below 30 days. Long-term macroeconomic development does not play a significant role in shaping the 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 backtesting is performed at least once a year.

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

## “AZERPOST” LIMITED LIABILITY COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

#### *Liquidity risk*

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

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

The maturity analysis of financial liabilities at December 31, 2022 is as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 month to 6 months</b>	<b>From 6 months to 1 year</b>	<b>More than 1 year</b>	<b>December 31, 2022 Total</b>
<b>Liabilities:</b>					
Borrowings	-	-	-	10,618,321	10,618,321
Lease liabilities	26,832	134,160	160,993	327,782	649,767
Trade and other financial payable	21,762,758	-	-	-	21,762,758
Customer accounts	540,567,885	-	-	-	540,567,885
<b>Total financial liabilities</b>	<b>562,357,475</b>	<b>134,160</b>	<b>160,993</b>	<b>10,946,103</b>	<b>573,598,731</b>

The maturity analysis of financial liabilities at December 31, 2021 is as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 month to 6 months</b>	<b>From 6 months to 1 year</b>	<b>More than 1 year</b>	<b>December 31, 2021 Total</b>
<b>Liabilities:</b>					
Borrowings	-	420,318	420,318	10,805,757	11,646,393
Lease liabilities	22,675	113,376	136,052	430,589	702,692
Trade and other financial payable	20,371,078	-	-	-	20,371,078
Customer accounts	354,798,813	-	-	-	354,798,813
<b>Total financial liabilities</b>	<b>375,192,566</b>	<b>533,694</b>	<b>556,370</b>	<b>11,236,346</b>	<b>387,518,976</b>

### 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2022 and 2021 the Company had no financial instruments measured at fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

# “AZERPOST” LIMITED LIABILITY COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(In Azerbaijani Manats)

	Date of valuation	Quoted prices in active markets (Level 1)	Fair value measurement using		December 31, 2022 Total
			Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	December 31, 2022	251,549,884	-	-	251,549,884
Trade and other receivables	December 31, 2022	-	-	12,012,521	12,012,521
Investment securities	December 31, 2022	-	308,902,445	-	308,902,445
<b>Liabilities for which fair values are disclosed</b>					
Borrowings	December 31, 2022	-	-	10,618,321	10,618,321
Lease liabilities	December 31, 2022	-	-	649,767	649,767
Trade and other payables	December 31, 2022	-	-	21,762,758	21,762,758
Customer accounts	December 31, 2022	-	-	540,567,885	540,567,885

	Date of valuation	Quoted prices in active markets (Level 1)	Fair value measurement using		December 31, 2021 Total
			Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	December 31, 2021	181,230,273	-	-	181,230,273
Trade and other receivables	December 31, 2021	-	-	11,727,524	11,727,524
Investment securities	December 31, 2021	-	189,117,798	-	189,117,798
<b>Liabilities for which fair values are disclosed</b>					
Borrowings	December 31, 2021	-	-	11,646,393	11,646,393
Lease liabilities	December 31, 2021	-	-	702,692	702,692
Trade and other payables	December 31, 2021	-	-	20,371,078	20,371,078
Customer accounts	December 31, 2021	-	-	354,798,813	354,798,813

### Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

## “AZERPOST” LIMITED LIABILITY COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued) (In Azerbaijani Manats)

	Carrying value 2022	Fair value 2022	Unrecognized gain/(loss) 2022	Carrying value 2021	Fair value 2021	Unrecognized gain/(loss) 2021
<b>Financial assets</b>						
Cash and cash equivalents	251,549,884	251,549,884	-	181,230,273	181,230,273	-
Trade and other receivables	12,012,521	12,012,521	-	11,727,524	11,727,524	-
Investment securities	312,676,300	308,902,445	(3,773,855)	192,822,530	189,117,798	(3,704,732)
<b>Financial liabilities</b>						
Borrowings	10,618,321	10,618,321	-	11,646,393	11,646,393	-
Lease liabilities	649,767	649,767	-	702,692	702,692	-
Trade and other payables	21,762,758	21,762,758	-	20,371,078	20,371,078	-
Customer accounts	540,567,885	540,567,885	-	354,798,813	354,798,813	-
<b>Total unrecognized change in unrealized fair value</b>			<u><b>(3,773,855)</b></u>			<u><b>(3,704,732)</b></u>

#### Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without specific maturity and variable rate financial instruments.

#### Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.