Azercosmos OJSC

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

31 December 2018

Contents

Independent Auditor's Report

To the Shareholders and Management of Azercosmos OJSC:

Our opinion

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

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* se ction of our report.

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

Independence

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

Our audit approach

Overview

Materiality	• Overall materiality: Azerbaijan Manat ("AZN") 6.5 million, which represents 1% of total assets
Key audit matters	• Impairment of property and equipment

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We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	AZN 6.5 million
How we determined it	1% of the Company's total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because it is a generally accepted benchmark for such government organisation with strategic national objectives. We chose 1%, which is consistent with quantitative materiality thresholds used for companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Impairment of property and equipment	
Refer to Note 4 "Critical Accounting Estimates and Judgements in Applying Accounting Policies", Note 8 "Property and Equipment" As disclosed in Note 8, the Company identifies three cash generating units (CGU) - Azerspace-1/Africasat-1 (CGU 1); Azersky (CGU 2) and Azerspace 2 (CGU 3). The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates, which do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. As a result of the impairment assessment performed by the Company as at 31 December 2018 no additional impairment charge was required for Azerspace-1/Africasat-1 (CGU 1); Azersky (CGU 2) and Azerspace 2 (CGU 3) to be recognised for the year ended 31 December 2018. As at 31 December 2018, the accumulated impairment for property and equipment is AZN 30,532,558. Considering the level of audit risk, significance of property and equipment to the financial statements, complexity and high degree of judgements applied in the impairment assessment, as well as estimation uncertainty of the future business results, sensitivity of assumptions, including discount rate and growth rate, we considered impairment of property and equipment as a key audit matter.	We updated understanding of management's process for the assessment of the value-in-use of property and equipment. We obtained the cash flow model used by management for each CGU to monitor the recoverable amount of assets. We checked the models and ensured that they are mathematically accurate. We compared the inputs into the models with the carrying value of assets, and discussed with management key assumptions used in the assessment, including tracing this information to external or Company's internal sources, where appropriate. As part of our procedures, we have tested current year actual results and compared them with the figures included in the prior year forecast to consider the reasonableness of the assumptions included in the forecasts. We have also checked management's key assumption for long-term growth rate by comparing it to historical growth results. In addition, calculation of pre-tax discount rate was re-performed. Our internal valuation experts were involved to assist us in assessing the accuracy and reasonableness of pre-tax discount rate estimated by management of the Company. Management's estimate was in line with our expectations. We also assessed whether the Company's disclosures regarding the impairment testing performed, assumptions, sensitivity analysis are appropriate. We found management's assumptions underlying the impairment assessment as well as management's conclusions about the absence of reversal or additional impairment charge for the year ended 31 December 2018 to be consistent with our expectations. No material exceptions were noted.

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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Fahri Mustafayev.

PricewaterhouseCoopers Audit Azerbaijan LLC

29 April 2019

In Azerbaijani Manats	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property and equipment	8	524,240,931	516,741,281
Intangible assets		107,626	110,584
Finance lease receivables	9	92,480,836	101,978,338
Other non-current assets	12	2,418,605	-
Total non-current assets		**619,247,998**	**618,830,203**
Current assets			
Cash and cash equivalents	11	8,432,558	29,656,506
Trade receivables	10	9,313,944	9,933,724
Finance lease receivables	9	13,945,197	13,946,017
Other current assets		2,692,737	3,856,687
Total current assets		**34,384,436**	**57,392,934**
TOTAL ASSETS		**653,632,434**	**676,223,137**
Equity			
Charter capital	13	63,610,600	63,610,600
Additional paid-in capital		162,344,708	108,994,109
Accumulated losses		(313,190,846)	(308,153,984)
TOTAL EQUITY		**(87,235,538)**	**(135,549,275)**
LIABILITIES			
Non-current liabilities			
Borrowings	14	622,048,096	651,099,135
Total non-current liabilities		**622,048,096**	**651,099,135**
Current liabilities			
Trade payables and accrued liabilities		512,137	5,788,803
Borrowings	14	117,578,599	154,461,976
Other current liabilities		729,140	422,498
Total current liabilities		**118,819,876**	**160,673,277**
TOTAL LIABILITIES		**740,867,972**	**811,772,412**
TOTAL LIABILITIES AND EQUITY		**653,632,434**	**676,223,137**

Signed and authorized for release on behalf of management on 29 April 2019

Rashad Nabiyev
Chairman of the Management Board

Samaddin Asadov
Director, Finance

In Azerbaijani Manats	**Notes**	**2018**	**2017**
Revenues	15	36,812,030	37,086,998
Cost of services	16	(35,914,392)	(33,726,523)
Gross profit		**897,638**	**3,360,475**
General and administrative expenses	17	(8,476,021)	(8,247,528)
Operating loss		**(7,578,383)**	**(4,887,053)**
Finance cost	19	(7,451,381)	(13,807,656)
Finance income	18	4,754,157	5,205,334
Other income / (expense)		3,813,308	(2,608,219)
Loss before tax		**(6,462,299)**	**(16,097,594)**
Income tax benefit/expense		-	-
Loss for the year		**(6,462,299)**	**(16,097,594)**
Total comprehensive loss for the year		**(6,462,299)**	**(16,097,594)**

In Azerbaijani Manats	**Charter capital**	**Additional paid-in capital**	**Accumulated loss**	**Total equity**
Balance as at 1 January 2017	**63,610,600**	**69,678,194**	**(292,056,390)**	**(158,767,596)**
Other comprehensive loss for the year	-	-	(16,097,594)	(16,097,594)
Total comprehensive loss	**-**	**-**	**(16,097,594)**	**(16,097,594)**
Additional paid-in capital	-	39,315,915	-	39,315,915
Balance as at 31 December 2017	**63,610,600**	**108,994,109**	**(308,153,984)**	**(135,549,275)**
Adoption of IFRS 9: re-measurement of expected credit losses	**-**	**-**	(499,858)	(499,858)
Balance at 1 January 2018	**63,610,600**	**108,994,109**	**(308,653,842)**	**(136,049,133)**
Other comprehensive loss for the year	-	-	(6,462,299)	(6,462,299)
Total comprehensive loss	**-**	**-**	**(6,462,299)**	**(6,462,299)**
Additional paid-in capital	-	55,275,894	-	55,275,894
Transfer of unwinding gain/losses from accumulated loss	-	(1,925,295)	1,925,295	-
Balance as at 31 December 2018	**63,610,600**	**162,344,708**	**(313,190,846)**	**(87,235,538)**

In Azerbaijani Manats	Notes	2018	2017
Cash flows from operating activities			
Loss for the year		(6,462,299)	(16,097,594)
Adjustments for:			
Depreciation expense	8	27,428,719	25,868,874
Amortization expense		11,192	19,615
Finance income on lease receivable	18	(4,754,157)	(5,205,334)
Interest expense	19	16,633,242	17,054,909
Provision for bad debt receivables	17	158,746	847,570
Foreign exchange translation difference		(8,841,418)	3,700,015
Operating cash flows before working capital changes:		**24,174,025**	**26,188,055**
(Increase) / decrease in prepayments		(2,418,605)	3,268,012
Increase in trade receivables		(38,824)	(5,542,821)
Decrease in other current assets		1,163,950	133,729
Decrease in trade payables and accrued liabilities		(3,724,758)	(68,227,829)
Increase / (decrease) in other current liabilities		306,642	(6,875,373)
Changes in working capital		**19,462,430**	**(51,056,227)**
Interest paid		(13,291,718)	(18,540,470)
Net cash from / (used in) operating activities		**6,170,712**	**(69,596,697)**
Cash flows from investing activities			
Purchase of property and equipment	8	(23,179,381)	(99,276,006)
Purchase of intangible assets		(35,407)	(49,345)
Disposal of property and equipment and intangible asset		27,173	729
Proceeds from finance lease	9	14,245,660	14,348,732
Net cash used investing activities		**(8,941,955)**	**(84,975,890)**
Cash flows from financing activities			
Increase in additional paid-in capital		55,000,000	-
Proceeds from borrowings		-	380,041,917
Repayment of borrowings		(73,118,942)	(205,222,612)
Net cash (used in) / from financing activities		**(18,118,942)**	**174,819,305**
Net (decrease) / increase in cash and cash equivalents		**(20,890,185)**	**20,246,718**
Effect of exchange rate changes on cash and cash equivalents		(333,763)	(1,744,274)
Cash and cash equivalents at the beginning of the year		**29,656,506**	**11,154,062**
Cash and cash equivalents at the end of the year		**8,432,558**	**29,656,506**