State Enterprise "Kyrgyz Pochtasy" under the State Registration Service of the Government of the Kyrgyz Republic

Financial Statements for the years ended
31 December 2017 and 2016, and as at 1 January
2016

State Enterprise "Kyrgyz Pochtasy" under the State Registration Service of the Government of the Kyrgyz Republic

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State Enterprise "Kyrgyz Pochtasy" under
the State Registration Service of the Government of the Kyrgyz Republic

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016, AND AS AT 1 JANUARY 2016

Management is responsible for the preparation of financial statements that present fairly the financial position of State Enterprise "Kyrgyz Pochtasy" under the State Registration Service of the Government of the Kyrgyz Republic (the "Company") as at 31 December 2017 and 2016, and as at 1 January 2016, and the related statements of profit or loss, comprehensive income for the year ended, changes in equity and cash flows for the years then ended, and of significant accounting policies and notes to the financial statements in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Enterprise's transactions and disclose with reasonable accuracy at any time the financial position of the Enterprise, and which enable them to ensure that the financial statements of the Enterprise comply with IFRS;
- maintaining statutory accounting records in compliance with Kyrgyz Republic legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

The financial statements of the Company for the years ended 31 December 2017 and 2016, and as at 1 January 2016, were approved by Management of the Company on 28 May 2019.

On behalf of management:

M. D. Naspekov
General Director

28 May 2019
Bishkek, Kyrgyz Republic

J. M. Medetova
Chief Accountant

28 May 2019
Bishkek, Kyrgyz Republic

Deloitte.

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INDEPENDENT AUDITOR'S OPINION

To the Founder of the State Enterprise "Kyrgyz Pochtasy" under the State Registration Service of the Government of the Kyrgyz Republic.

Qualified opinion

We audited the accompanying financial statements of the State Enterprise "Kyrgyz Pochtasy" under the State Registration Service of the Government of the Kyrgyz Republic (the "Company") which comprise the statement of financial position as at 31 December 2017 and 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the years then ended, and notes to the financial statements, summary of significant accounting policy.

In our opinion, except of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and 2016, as well as its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

According to Note 2, the Company did not reflect the effect on property, plant and equipment from the transition to IFRSs, despite the fact that according to the previous accounting basis, property, plant and equipment were reflected at the actual cost, while the selected accounting policy of the Company according to IFRSs requires reflection at the revalued amount. As at 31 December 2017 and 2016, and as at 1 January 2016, the carrying value of property, plant and equipment is 115,824 thousand som, 112,931 thousand som and 102,205 thousand som, respectively. Given the nature of the Company's accounting records, we could not to obtain sufficient audit evidence regarding the actual cost and accumulated depreciation of property, plant and equipment at the transition date to IFRS. In addition, the Company did not conduct an assessment of property, plant and equipment as at 1 January 2016 and on the reporting dates 31 December 2016 and 2017, which does not comply with the accounting policy of the Company and the requirements of IAS 16 Property, Plant and Equipment. Additionally, the Company did not estimate the recoverable value of these assets as at 31 December 2017 and 2016, despite the existence of indications of the possible impairment of property, plant and equipment that does not comply with the requirements of IAS 36 Impairment of Assets. Consequently, we have been unable to determine the impact of these inconsistencies on the carrying amount of property, plant and equipment and deferred tax liabilities as at the specified dates, as well as depreciation and deferred tax expenses for 2016 and 2017.

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

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 ISA, 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 controls 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 controls.
- 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 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.

Kanyshai Sadyrbekova
Managing Director
LLC Deloitte & Touche
State license on auditing in the Kyrgyz Republic
№0001, type GK
given by the Ministry of Justice of the Kyrgyz Republic
dated 4 July 2002

Nurlan Bekenov
Engagement Partner

24 May 2019
Bishkek, Kyrgyz Republic

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(in thousands of Kyrgyz Som)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	6	597,011	577,182
Other income		14,036	9,514
Total income		**611,047**	**586,696**
Operating expenses	7	(598,159)	(580,245)
Operating income		**12,888**	**6,451**
Financial costs		(1,868)	(2,930)
Grant income		33,503	30,756
Grant expenses	17	(31,142)	(30,540)
Other expenses		(1,718)	(4,061)
Profit/(Loss) before income tax		**11,663**	**(324)**
Income tax expenses	8	(1,364)	(391)
PROFIT/ (LOSS) FOR THE YEAR		**10,299**	**(715)**
Other comprehensive income/(loss)			
Other comprehensive income/(loss), net of income tax		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**10,299**	**(715)**

On behalf of management:

M.D. Naspekov
General Director

28 May 2019
Bishkek, Kyrgyz Republic

J. M. Medetova
Chief Accountant

28 May 2019
Bishkek, Kyrgyz Republic

The Notes on pages 9-34 form an integral part of these financial statements.

STATE ENTERPRISE "KYRGYZ POCHTASY" UNDER THE STATE REGISTRATION SERVICE OF THE GOVERNMENT OF THE KYRGYZ REPUBLIC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017, 2016 AND 1 JANUARY 2016
(in thousands of Kyrgyz Som)

	Notes	31 December 2017	31 December 2016	1 January 2016
Assets				
Non-current assets				
Property, plant and equipment	9	115,824	112,931	102,205
Intangible assets		1,856	1,951	1,845
Deferred tax assets	8	2,672	3,293	2,700
Total non-current assets		**120,352**	**118,175**	**106,750**
Current assets				
Inventories	10	9,269	9,534	15,805
Trade and other accounts receivable	11	54,431	48,463	47,837
Other financial assets	12	11,949	-	-
Cash on hand and in banks	13	84,959	89,200	97,373
Total current assets		**160,608**	**147,197**	**161,015**
Total assets		**280,960**	**265,372**	**267,765**
Equity and Liabilities				
Equity				
Charter fund	14	20,561	20,561	20,561
Retained earnings/(Accumulated deficit)		2,051	(8,248)	(7,533)
Total equity		**22,612**	**12,313**	**13,028**
Non-current liabilities				
Long-term borrowings	15	17,181	8,308	-
Grant liabilities	17	48,833	44,836	45,415
Total non-current liabilities		**66,014**	**53,144**	**45,415**
Current liabilities				
Short-term borrowings	15	21,709	26,902	28,166
Trade and other accounts payable	16	157,769	158,963	164,331
Current tax liabilities		12,856	14,050	16,825
Total current liabilities		**192,334**	**199,915**	**209,322**
Total equity and liabilities		**280,960**	**265,372**	**267,765**

On behalf of management:

M.D. Naspekov
General Director

28 May 2019
Bishkek, Kyrgyz Republic

J.M. Medetova
Chief Accountant

28 May 2019
Bishkek, Kyrgyz Republic

The Notes on pages 9-34 are form an integral part of these financial statements.

STATE ENTERPRISE "KYRGYZ POCHTASY" UNDER THE STATE REGISTRATION SERVICE OF THE GOVERNMENT OF THE KYRGYZ REPUBLIC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(in thousands of Kyrgyz Som)

	Note	Charter fund	Retained earnings/ (Accumulated deficit)	Total
As at 1 January 2016	14	**20,561**	**(7,533)**	**13,028**
Total comprehensive loss for the year		-	(715)	(715)
As at 31 December 2016	14	**20,561**	**(8,248)**	**12,313**
Total comprehensive income for the year		-	10,299	10,299
As at 31 December 2017	14	**20,561**	**2,051**	**22,612**

On behalf of management:

M.D. Naspekov
General Director

28 May 2019
Bishkek, Kyrgyz Republic

J.M. Medetova
Chief Accountant

28 May 2019
Bishkek, Kyrgyz Republic

The Notes on pages 9-34 form an integral part of these financial statements.

STATE ENTERPRISE "KYRGYZ POCHTASY" UNDER THE STATE REGISTRATION SERVICE OF THE GOVERNMENT OF THE KYRGYZ REPUBLIC

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(in thousands of Kyrgyz Som)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operations:			
Profit/(loss) before income tax:		11,663	(324)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets	7	11,791	9,434
Provision for doubtful debts	7	2,384	16,378
Financial costs		1,868	2,930
Provision for unused vacation	7	2,887	5,959
Inventory obsolescence provision		421	1,352
Cash flows before changes in in operating assets and liabilities		**31,014**	**35,729**
Changes in operating assets and liabilities:			
Increase in trade and other accounts receivable		(8,352)	(17,004)
(Increase)/decrease in inventories		(156)	4,919
Decrease in trade and other accounts payable		(4,081)	(11,327)
Decrease in current tax liabilities		(961)	(2,808)
(Decrease)/increase in restricted cash		(4,684)	2,418
Increase/(decrease) in grant liabilities		3,997	(13,062)
Cash flows received/(used in) from operating activities		**16,777**	**(1,135)**
Income tax paid		(976)	(951)
Interest paid		(1,233)	(1,321)
Net cash received/(used in) from operating activities		**14,568**	**(3,407)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(14,589)	(7,783)
Change in other financial assets		(11,949)	-
Net cash used in investing activities		**(26,538)**	**(7,783)**
Cash flows from financing activities:			
Proceeds from long-term borrowings	15	9,000	8,308
Repayment of short-term borrowings	15	(6,897)	(3,185)
Net cash received from financing activities		**2,103**	**5,123**
Effect of exchange rate changes on the balance of cash held in foreign currencies		942	312
Net decrease in cash and cash equivalents		**(9,867)**	**(6,067)**
Cash and cash equivalents at the beginning of the year	13	**59,984**	**65,739**
Cash and cash equivalents at the end of the year	13	**51,059**	**59,984**

On behalf of management:

M.D. Naspekov
General Director

28 May 2019 Year
Bishkek, Kyrgyz Republic

J.M. Medetova
Chief Accountant

28 May 2019 Year
Bishkek, Kyrgyz Republic

The Notes on pages 9-34 are an integral part of these financial statements.

1. ORGANISATION

State Enterprise "Kyrgyz Pochtasy" under the State Registration Service of the Government of the Kyrgyz Republic (the "Company") is a legal entity created as a state enterprise in 1992, holding assets under the right of economic management, owns a seal with the image of the state emblem of the Kyrgyz Republic, stamps, its own letterhead and operates on the principles of full economic settlement and self-financing, with the right to open current accounts, including accounts in foreign currency, in accordance with the established procedure in the commercial banks of the Kyrgyz Republic.

The Company performs the following types of activities:

- organises the transportation and delivery of postal items;
- accepts, processes and delivers all types of postal items, including their transportation and dispatch in the Kyrgyz Republic;
- pays pensions, allowances and other social benefits, and monitors its execution;
- receives and makes disbursement of postal and electronic money transfers;
- provides financial services;
- sells postal stamps, philatelic goods, packaging and other goods attributable to postal services;
- receives utilities payments form individuals;
- manages public service centres;
- accepts subscriptions, handles and delivers periodicals, and manages its retail sale;
- provides Internet services, e-mail services and other computer services;
- performs trade and commercial activity according to legislation of the Kyrgyz Republic and;
- provides additional services which are not contradicting the legislation of the Kyrgyz Republic.

The founder of the Company is the Government of the Kyrgyz Republic. During 2016, management and coordination of the activities of the Company was carried out by the Ministry of Transport and Communications of the Kyrgyz Republic. Since 2017, on the basis of the Government Decree dated 28 August 2017 No. 542, the management and coordination of the activities of the Company passed to the State Registration Service ("GDS") under the Government of the Kyrgyz Republic

The property of the Company consists of property funds and working capital, as well as other property of the state postal service, transferred to it on the basis of economic management.

The property of the Company is a state property and can be used on the right of economic management. The Company owns, uses and disposes the property belonging to it on the right of economic management in accordance with the legislation of the Kyrgyz Republic. The State Property Management Fund under the Government of the Kyrgyz Republic (hereinafter referred to as the "Fund" or "FUGI") is a state executive body of the Kyrgyz Republic representing the interests of the state as the owner of state property

The Company's registered office is at Chui Avenue 227, Bishkek, Kyrgyz Republic.

2. INITIAL APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has prepared and presented its financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Financial Reporting Standards Board ("IASB") for the first time.

Applying IFRS for the first time, the Company established the date of its initial statement of financial position as at 1 January 2016 in accordance with IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. Until 1 January 2016, the Company did not present financial statements prepared in accordance with IFRS.

(in thousands of Kyrgyz Som)

IFRS 1 requires that a uniform accounting policy is applied to all periods presented in the first financial statements under IFRS, and this policy to be in accordance with IFRS effective at the end of the first reporting period.

The following is a reconciliation of the Company's financial statements prepared for internal purposes and in accordance with IFRS as at 1 January 2016:

	Prior to transition to IFRS	Transition effect	After transition to IFRS
Assets			
Non-current assets			
Property, plant and equipment	102,205	-	102,205
Intangible assets	1,845	-	1,845
Deferred tax assets	-	2,700	2,700
Total non-current assets	**104,050**	**2,700**	**106,750**
Current assets			
Inventories	15,805	-	15,805
Trade and other accounts receivable	90,813	(42,976)	47,837
Cash on hand and in bank	97,373	-	97,373
Total current assets	**203,991**	**(42,976)**	**161,015**
TOTAL ASSETS	**308,041**	**(40,276)**	**267,765**
Equity and Liabilities			
Equity			
Charter fund	20,561	-	20,561
Retained earnings/(Accumulated deficit)	31,850	(39,383)	(7,533)
Total capital	**52,411**	**(39,383)**	**13,028**
Non-current liabilities			
Grant liabilities	31,634	13,781	45,415
Total non-current liabilities	**31,634**	**13,781**	**45,415**
Current liabilities			
Short term borrowings	42,840	(14,674)	28,166
Trade and other accounts payable	164,331	-	164,331
Current tax liabilities	16,825	-	16,825
Total current liabilities	**223,996**	**(14,674)**	**209,322**
TOTAL EQUITY AND LIABILITIES	**308,041**	**(40,276)**	**267,765**

Explanation of the effects of transition to IFRS

The differences between the Company's previously adopted accounting policies and IFRS are explained below.

(i) Recognition of liabilities at fair value

IFRS requires liabilities at zero or below market interest rates to be measured and recognised at fair value using a market interest rate. In case of the government loan, the received benefit is treated as a government grant. The benefit of the below-market or zero rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS and the proceeds received. The Company measured the fair value of the loan from Ministry of finance of the Kyrgyz Republic using 6% interest rate and recorded a difference in the amount of 13,781 thousand som as a grant in the statement of financial position.

(ii) Provision for doubtful debts on accounts receivable

IFRS requires the Company's accounts receivable recorded at amortised cost to be assessed for indicators of impairment at the end of each reporting period. In case of there is impairment indicators, the Company should assess the impairment loss. At 1 January 2016 the Company estimated a provision for doubtful debts on accounts receivable in the amount of 42,976 thousand som and write-off 30,481 thousand som.

(iii) Deferred tax

IFRS requires the Company measures and recognise a deferred tax arisen on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. At 1 January 2016 the Company measured and recognized a deferred tax asset in the amount of 2,700 thousand som.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

Amendments to IAS 7 *Disclosure Initiative*

The Company has applied these amendments in 2017. The amendments require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of long-term and short-term borrowings. A reconciliation between the opening and closing balances of these items is provided in Note 15.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Company has applied these amendments in 2017. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements for such interests.

The application of these amendments has had no effect on the Company's financial statements.

New and revised IFRS that have not yet entered into force

The Company did not apply the following new and revised IFRS,that have been issued but are not yet in force:

- IFRS (IFRS) 9 *Financial Instruments*[1]
- IFRS (IFRS) 15 *Revenue from Contracts with Customers* (and amendments to IFRS 15)[1]
- IFRS (IFRS) 16 Leases[2]
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1]
- IFRIC 23 *Uncertainty over Income Tax Treatments*[2]
- Amendments to IFRS 9 *Early Repayment with Potential Negative Compensation*[2]
- Annual improvements to IFRS, period 2014-2016[1]
- Annual improvements to IFRS, period 2015-2017[2]

[1] effective for annual reporting periods starting from 1 January 2018, with the possibility of early application
[2] effective for annual reporting periods starting from 1 January 2019, with the possibility of early application

The Company will adopt new and revised standards and new interpretations from the date they enter into force. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the retrospective application of new and revised standards, unless otherwise specified in the notes below.

Management expects that the application of these amendments will not have a significant impact on the financial statements of the Company.

4. SIGNIFICANT PRINCIPLES OF ACCOUNTING POLICY

Statement of compliance

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

Going concern

These financial statements have been prepared on the basis that the Company will continue as a going concern, and there is no intention or necessity of liquidation or significant decrease of activity in the future. This assumes that the Company would be able to repay its debts when due during the normal course of business.

For the years ended 31 December 2017 and 2016, and 1 January 2016 the Company's current liabilities exceeded current assets by 31,726 thousand som, 52,718 thousand som and 48,307 thousand som, respectively. The Company's current liabilities mainly consist of a short-term loan from the Ministry of Finance of the Kyrgyz Republic and trade payables.

The Company will continue its operations in the foreseeable future, which is at least twelve months from the reporting date and the date of issue of these financial statements based on the following management plans:

- Obtaining a subsidy from the State Registration Service in the form of financing to cover the costs of operating and maintaining information kiosks for Taza Koom project in accordance with the decree of the Government of the Kyrgyz Republic dated 20 March 2018 No. 82-p. The increase in the Company's revenue from the provision of a large range of municipal services through Taza Koom information kiosks ("IK");
- The State Property Management Fund under the Government of the Kyrgyz Republic will provide support and assistance to the Company in the form of further financing if necessary in the future, for 12 months from the reporting date and from the date of issue of these financial statements.

Management believes that, based on the current financial performance of the Company, projected financing and government support, the Company will continue to generate sufficient cash flows from operations that will allow it to continue its operations in the foreseeable future.

Other criteria for basis of preparation

These financial statements are presented in thousands of Kyrgyz som ("thousand som"), unless otherwise stated. These financial statements have been prepared in accordance with historical cost basis, except for certain items of property, plant and equipment and financial instruments that are accounted for at revalued amount or fair value as explained below.

Historical cost is usually determined on the basis of the fair value of consideration paid in exchange for goods and services.

Fair value measurement

Disclosure of the fair value of financial instruments and non-financial assets held at fair value or whose fair value is to be disclosed in financial statements is presented in Note 19.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value (such as net realisable value in IAS 2 or value in use in IAS 36).

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional currency

The items included in the financial statements are measured using a currency that best reflects the economic essence of underlying events or circumstances relating to the Company (the "functional currency").

The functional currency of these financial statements is the Kyrgyz som. ("som"). The presentation currency is the Kyrgyz som. All values are rounded to the nearest thousand som, unless otherwise stated.

Property of the Company

As described in Note 1, the State Enterprise "Kyrgyz Pochtasy" under the State Registration Service of the Government of the Kyrgyz Republic is a state-owned enterprise. In accordance with the legislation of the Kyrgyz Republic, a state enterprise is a legal entity created on the basis of property, which is in state ownership. The property is owned by the Company on the right of economic management, implying certain restrictions in use of such property.

The property owned by the Company on the right of economic management corresponds to the definition of an asset in the framework of IFRS, since it is a controlled asset, which is expected to bring future economic benefits. The Company has the right to dispose of both movable and immovable property in order to carry out activities stipulated by the charter, subject to the requirements of the legislation of the Kyrgyz Republic.

Offsetting

Financial assets and liabilities are offset, and the statement of financial position reflects the balanced amount only if the Company has a legal right to offset amounts recognised in a balance sheet and intends to either offset the carrying amount, or realise the asset and fulfil the liability simultaneously. Income and expenses are not mutually credited in a statement of profit or loss and comprehensive income, except where required or permitted by an accounting standard or a relevant interpretation, with such cases separately disclosed in the Company's accounting policy.

The main provisions of the accounting policy are given below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue of the Company includes regular income from:

- services for the payment of pensions, benefits, scholarships;
- services from simple registered items, valuable items;
- parcel delivery services;
- services from express mail;
- parcel and package delivery services;
- sales of goods;
- editorial services for subscription and delivery of printed materials;
- sales of stamps;
- subscription services for periodicals, for money transfers;
- other postal services.

<u>Postal services</u>

Revenue from postal services is recognised when services are rendered. Revenue and associated costs are recognised in full when the Company acts an executer in the provision of postal services.

<u>Proceeds from sale of goods</u>

Revenue from sale of goods is recognised at the moment of sale, subject to all other conditions for revenue recognition.

<u>Commission for the service provision</u>

<u>Commission for the payment of pensions and benefits</u>

The Company receives a commission from the provision of services for the payment of pensions and benefits as a fee for the delivery of pensions and benefits to the population.

<u>Commission for the money transfer services</u>

The Company receives revenue from the provision of money transfer services as a commission for the transfer.

(in thousands of Kyrgyz Som)

Commission for the collection of payments on utility bills and mobile services

The Company generates revenue from the collection of payments from population for utilities and other municipal payments, as well as payments for fines to the General Directorate for Road Traffic Safety (ROAD) as a commission. The Company acts as an agent.

Subscription fee

The Company receives revenue from the provision of subscription services as a commission. The Company acts as an agent

The cost of Company's services in the domestic market is determined based on the tariff rates agreed with the Ministry of Transport and Communications of the Kyrgyz Republic and approved by the State Agency of Communications.

The cost of Company's services in the foreign market is determined based on the tariff rates developed and approved by the Universal Postal Union ("UPU") in Switzerland.

When providing services for international delivery of parcels and packages, the client fully pays the cost of the service at the tariff rates to the destination. Costs to the border of the country of destination are recognised by the Company. From the border to the destination, expenses are recognised by the destination country, which further issue invoices to the Company in the amount of expenses incurred. Revenue is recognised as services are provided.

Grant liabilities

Government grants are not recognised until there is reasonable assurance that all conditions neccessary to receive the grant will be met and the grant will be received.

Grants are recognised in the statement of profit or loss on a systematic basis over the period in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Foreign currency

Monetary items denominated in foreign currency are recalculated at the appropriate reporting date exchange rate. Non-monetary items accounted for at fair value and in foreign currency are recalculated using exchange rates in effect on the fair value is determined. Non-monetary items measured in historical value and expressed in foreign currency are not recalculated.

Exchange rate differences on monetary items arising from changes in exchange rates are reflected in profit or loss in the period they arise.

The following are the year-end exchange rates used by the Company to prepare the financial statements:

	31 December 2017	31 December 2016	1 January 2016
SDR (Special Drawing rights)	97.9656	92.7744	105.3599
Kyrgyz som/USD	68.8395	69.2301	75.8969
Kyrgyz som/EURO	82.5936	72.8439	82.9022

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Taxation

The income tax expense represents the amount of current and deferred tax.

Current income tax

Current tax is determined based on the value of taxable profit for the year. Pre-tax profit is different from profit reflected in a statement of profit or loss and comprehensive income, due to income items or expenses taxable or deductible in other reporting periods, as well as non-taxable or non-deductible items. Current income tax obligations are calculated using tax rates imposed by legislation in force before the end of the reporting period.

Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements, and the corresponding tax base used in the computation of taxable profit. Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are generally recognised to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be used. Tax assets and liabilities are not recorded in financial statements if the temporary difference is due the initial recognition of other assets and liabilities within the framework of transactions (apart from business mergers) that have no impact on taxable or accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and decreases if future taxable profit sufficient for the full or partial use of these assets is no longer probable.

Deferred tax assets and liabilities are calculated according to tax rates applicable for the period when an asset is sold or liability repaid, based on tax rates (and tax legislation) that have been enacted or substantively enacted at the respective reporting date.

The valuation of deferred tax liabilities and assets reflects the tax implications of the Company's intentions (as at the end of the reporting period) on how to recover or repay the carrying amount of assets and liabilities.

Current and deferred income tax for the year

Current tax and deferred income tax are recognised in profit or loss, unless they relate to items directly reflected in other aggregate income or equity. In this case, current and deferred taxes are also recognised in aggregate income or directly in equity, respectively.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into the following: loans and accounts receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised on a trade date basis.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at Fair Value Through Profit or Loss ("FVTPL") or 'other financial liabilities'. Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference beteen the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Property, plant and equipment

Land, buildings and structures intended for use in rendering services or for managerial purposes, are shown in a statement of financial position at revalued amount, representing fair value at the moment of revaluation less accrued depreciation and accumulated impairment losses. Revaluation is carried out regularly so that the carrying value of property, plant and equipment does not differ significantly from its fair value at the reporting date.

Any increase in the value of land, buildings and structures as a result of revaluation will be included in other comprehensive income and accumulate in equity to the extent it exceeds a previous reduction in the value of the same assets as previously reflected as a loss. Revaluation within the amounts of the previous reduction pertains to the financial result. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Construction in progress are accounted for at actual cost less impairment losses. The cost of construction includes the cost of professional fees, as well as, for qualified assets, borrowing costs, capitalised in accordance with the Company's accounting policy. Construction in progress is included in the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Equipment and other property are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of property, plant and equipment (excluding land plots and construction in progress) ess their residual values over their useful lives, using the straight-line method. The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful life of property, plant and equipment as at 31 December 2017 and 2016, and as at 1 January 2016 is as follows:

Buildings and facilities	10 years
Vehicles	5 years
Others	3 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets are accounted for at acquisition cost less accumulated amortisation and impairment losses. Amortization is recognised on a straight-line basis over their estimated useful lives. The estimated useful life is reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Goods (newspapers, postcards, magazines) purchased for sale are distributed among branches. Contractually, goods unsold are returned to suppliers.

Accounts receivable

Accounts receivable are accounted for according to repayment terms and types. In terms of maturity, receivables are divided into two types:

- Short-term (up to one year);
- Long-term (over one year).

Account receivables are recorded in a statement of financial position as either current or non-current assets.

Upon initial recognition, receivables are valued at fair value, increased by transaction costs that are directly related to the acquisition of receivables.

Accounts receivable are recognised at the moment when goods are delivered, work performed or services provided. The recognition date of receivables on services provided is the Company's execution of all relevant contractual terms.

Subsequently, accounts receivable are measured and recognised in a balance sheet at amortised cost less an impairment allowance. The reserve for doubtful debts is calculated for all receivables.

A provision for the impairment of receivables is created when there is objective evidence that the Company will not be able to collect the amounts owed within initially established contract terms. Debtor financial difficulties or deferred payments are indicative of receivable impairment. The amount of a provision is defined as the difference between the carrying value of an asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The remainder of the provision for doubtful debts is adjusted by recognising either expenses or income in profit or loss. Any amount that is deducted from a customer's account balance reduces the current provision for doubtful debts. Receivables whose return is not considered probable are written off.

Provisions for doubtful debts are estimated at the end of each reporting period.

The Company uses the following to determine the size of a provision for doubtful debts:

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, for the purposes of measuring impairment, financial assets are combined into groups of similar credit risk characteristics reflecting the debtor's ability to pay all amounts due under a contract. Impairment losses recognised on a collective basis represent an interim step before an impairment loss is determined for individual assets in a group of financial assets that together undergo an impairment assessment. As soon as information is available to specifically identify losses from separately depreciated assets within a group, these assets are removed from the group. Future cash flows in a group of financial assets measured together for impairment, are calculated on the basis of past experience or comparable economic criteria of other companies, the occurrence of losses on assets showing characteristics of credit risk similar to those in the group. Past loss experience is adjusted on the basis of observable current data to reflect the impact of current conditions that do not affect the period to which the past loss experience related and to exclude the effects of past conditions that are not currently available.

Estimated changes in future cash flows reflect and have a common focus with changes in observable data from period to period. The methodology and assumptions used to assess future cash flows are regularly reviewed to reduce the differences between estimated losses and actual losses.

Borrowings

Long-term borrowings are stated at amortised cost using the effective interest rate method.

The Company recalculates loans received at zero interest or at a rate different from the market interest rate, using the market interest rate to bring the financial instrument to fair value as at the initial recognition date.

Contingent liabilities and assets

Contingent liabilities are not recognised in a statement of financial position, but disclosed in financial statements unless an outflow of resources as a result of their repayment is unlikely.

A contingent asset is not recognised in a statement of financial position, but is disclosed in financial statements when an inflow of economic benefits is probable.

Profit distribition

The Company transfers to the state budget a part of the profit remaining at its disposal after paying taxes and other obligatory payments. The decision on the distribution of net profit for the year is made by the State Property Management Fund under the Government of the Kyrgyz Republic.

5. SIGNIFICANT ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, management of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

Critical judgments used in applying accounting policies

Discount rate for interest-free loans

The discount rate for interest-free loans received by the Company from the Ministry of Finance of the Kyrgyz Republic with fixed payments is determined at the market rate for financial instruments with similar credit risk and maturities at the date of receipt of the loan.

Key sources of estimation uncertainty

Deferred taxes

Deferred tax assets and liabilities are recognised for all deductible temporary differences to the extent that there is a possibility that sufficient taxable profit can be obtained against which deductible temporary differences can be utilised.

(in thousands of Kyrgyz Som)

Management of the Company considers it reasonable to recognise a deferred tax asset as at 31 December 2017 and 2016, and 1 January 2016 in the amount of 2,672 thousand som and 3,293 thousand som and 2,700 thousand som, respectively, as it is highly probable that future taxable profits will be sufficient to utilise the relevant deferred tax assets.

Provision for doubtful debts

Management analyses the impairment of receivables at the end of each reporting period.

A provision is accrued when there is objective evidence that the Company will not receive the full amount of the original receivable. Management uses its subjective judgement to adjust observable data for receivables to reflect the current situation.

As at 31 December 2017 and 2016, and as at 1 January 2016, the provision for ba debt on doubtful receivables is equal to 16,594 thousand som, 16,378 thousand som and 12,495 thousand som (Note 11). Management believes that all receivables will be reimbursed in full less the recorded provision.

6. REVENUE

The analysis of the Company's revenue is presented as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Commission from payment of pensions and benefits	333,720	329,000
Revenue from postal services	80,470	72,647
Commission from receipt of payments for utilities, and mobile services	59,243	48,220
Proceeds from the sale of goods	50,954	54,939
International non-equivalent exchange	41,135	37,883
Commission on subscription fees	26,952	29,693
Commission on money transfer services	4,537	4,800
Total revenue	**597,011**	**577,182**

International non-equivalent exchange operations

International non-equivalent exchange operations are represented by service provided in other countries for delivery of postal items. Incoming mail represent a Company's income, as it includes services on delivering mail within the Kyrgyz Republic.

(in thousands of Kyrgyz Som)

7. OPERATING EXPENSES

For the years ended 31 December 2016 and 2017, operating expenses are presented as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Employee salaries and social benefits	445,179	421,659
Shipping and delivery costs	31,699	31,821
Purchase price of goods	16,706	14,932
Utility costs	14,658	13,729
Current repair costs	12,168	10,460
Depreciation and amortisation	11,791	9,434
Materials	9,168	7,359
Mail service cost	7,777	6,962
Material aid	7,434	7,445
Travel expenses	6,291	4,402
Bank charges	5,263	4,524
Taxes other than income tax	4,170	3,587
Provision for unused vacation	2,887	5,959
Provision for doubtful debts (Note 11)	2,384	16,378
Others	20,584	21,594
Total operating expenses	**598,159**	**580,245**

8. INCOME TAX

The Company calculates income tax for the current period based on tax accounting data in accordance with the requirements of the Kyrgyz Republic tax legislation, which may differ from IFRS. For the years ended 31 December 2017 and 2016, the corporate income tax rate was 10%.

As some expenses are not deductible for tax purposes and also due to its non-taxable nature, the Company has certain permanent tax differences.

Deferred tax reflects the net tax effect of temporary differences between the accounting value of assets and liabilities for financial reporting purposes and the amount determined for tax purposes. The temporary differences as at 31 December 2017 and 2016 and as at 1 January 2016 are mainly resulted from different accounting methods for tax purposes and for financial statements preparation.

A reconciliation of theoretical profit tax and actual income tax expenses reflected in a statement of profit or loss and comprehensive income for the years ended 31 December 2017 and 2016 is presented as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit/(loss) before income tax	11,663	(324)
Tax at the statutory rate (10%)	1,166	(32)
Tax effect from permanent differences	198	423
Income tax expense	**1,364**	**391**
Current income tax	743	984
Deferred income tax	621	(593)
Income tax expense	**1,364**	**391**

Permanent differences are expenses that are not deductible for tax purposes and include mainly expenses not related to the Company's main activity. Temporary differences include taxable income, which accounting and recognition treatment differs for tax and financial reporting purposes.

(in thousands of Kyrgyz Som)

	31 December 2017	31 December 2016
Current income tax liability	-	233
Deferred tax assets	(2,672)	(3,293)

Changes in deferred income tax liabilities/(assets) at the statutory rate (10%) are as follows:

	Provision for unused vacation	Provision for inventory obsolescence	Provisions for doubtful accounts receivable	Other	Total
As at 1 January 2016	**-**	**(2,153)**	**(1,249)**	**702**	**(2,700)**
Deferred tax liabilities/(assets) recorded in profit or loss	(596)	135	(389)	257	**(593)**
As at 31 December 2016	**(596)**	**(2,018)**	**(1,638)**	**959**	**(3,293)**
Deferred tax liabilities/(assets) recorded in profit or loss	(289)	(42)	(21)	973	**621**
As at 31 December 2017	**(885)**	**(2,060)**	**(1,659)**	**1,932**	**(2,672)**

(in thousands of Kyrgyz Som)

9. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings and structures	Machinery and equipment	Office equipment	Vehicles	Furniture	Total
Cost							
As at 1 January 2016	**305**	**134,154**	**26,475**	**10,703**	**18,865**	**5,631**	**196,133**
Additions	-	3,064	4,121	395	11,996	478	20,054
Transfers	(270)	270	-	-	-	-	-
As at 31 December 2016	**35**	**137,488**	**30,596**	**11,098**	**30,861**	**6,109**	**216,187**
Additions	-	3,248	5,151	5,361	43	786	14,589
Transfers	(35)	35	-	-	-	-	-
As at 31 December 2017	**-**	**140,771**	**35,747**	**16,459**	**30,904**	**6,895**	**230,776**
Accumulated depreciation							
As at 1 January 2016	**-**	**54,953**	**15,791**	**7,622**	**13,559**	**2,003**	**93,928**
Charge for the year	-	4,648	2,105	663	1,579	333	9,328
As at 31 December 2016	**-**	**59,601**	**17,896**	**8,285**	**15,138**	**2,336**	**103,256**
Charge for the year	-	3,025	4,308	1,436	2,255	672	11,696
As at 31 December 2017	**-**	**62,626**	**22,204**	**9,721**	**17,393**	**3,008**	**114,952**
Net book value							
As at 1 January 2016	**305**	**79,201**	**10,684**	**3,081**	**5,306**	**3,628**	**102,205**
As at 31 December 2016	**35**	**77,887**	**12,700**	**2,813**	**15,723**	**3,773**	**112,931**
As at 31 December 2017	**-**	**78,145**	**13,543**	**6,738**	**13,511**	**3,887**	**115,824**

(in thousands of Kyrgyz Som)

10. INVENTORIES

	31 December 2017	31 December 2016	1 January 2016
Goods	6,105	7,179	13,991
Other materials	3,164	2,355	1,814
Total inventories	**9,269**	**9,534**	**15,805**

As at 31 December 2017, 31 December 2016 and 1 January 2016, the provision for inventory obsolescence is 20,600 thousand som, 20,179 thousand som and 20,531 thousand som, respectively.

11. TRADE AND OTHER ACCOUNT RECEIVABLES

	31 December 2017	31 December 2016	1 January 2016
Trade accounts receivable	42,911	29,144	27,796
Other receivables	22,234	30,095	17,938
Receivables from employees	5,880	5,602	14,598
Provision for doubtful debts	(16,594)	(16,378)	(12,495)
Total trade and other account receivables	**54,431**	**48,463**	**47,837**

For the years ended 31 December 2016 and 2017, changes in the provision for doubtful debts is presented as follows:

	31 December 2017	31 December 2016
Opening balance	16,378	42,976
Provision accrual (Note 7)	2,384	16,378
Writte off during the year	(2,168)	(42,976)
Closing balance	**16,594**	**16,378**

The average credit period on debt receivable due from customers of the Company does not exceed 60 days.

As of December 31 December 2016 and 2017, and 1 January 2016, the Company had one debtor whose debts amounted to 14,415 thousand som, 11,457 thousand som and 13,661 thousand som, respectively, or 26%, 24% and 19%, which does not represent a significant credit risk concentration.

12. OTHER FINANCIAL ASSETS

On 17 January 2017, the Company opened a deposit account in JSC Rosinbank in amount of 11,849 thousand som. A deposit agreement was signed for a period of one year with interest rate of 11% per annum. As at 31 December 2017, accrued interest amounted to 100 thousand som.

(in thousands of Kyrgyz Som)

13. CASH ON HAND AND IN BANK

Cash and cash equivalents in a statement of cash flows include cash on hand and cash in bank accounts. Differences in cash balances and cash equivalents as at the reporting date shown in a statement of cash flows and the relevant financial statement items are as follows:

	31 December 2017	31 December 2016	1 January 2016
Restricted cash (Note 17)	33,900	29,216	31,634
Cash on hand	30,599	42,457	31,231
Cash in bank	20,460	17,527	34,508
	84,959	**89,200**	**97,373**
Less restricted cash	(33,900)	(29,216)	(31,634)
Total cash and its equivalents, represented in the statement of cash flow	**51,059**	**59,984**	**65,739**

Restricted cash represent funds in special current accounts created to receive cash and make payments for transactions under the project "Financial Sector Development" under the Financing Agreement between the Kyrgyz Republic and the International Development Association dated 11 July 2013 (Note 17).

As of 31 December 2017, 31 December 2016 and 1 January 2016 the Company placed cash in one bank in the amount of 47,932 thousand som or 56%, 59,036 thousand som or 66% and 60,697 thousand som or 62%, respectively.

All funds are placed in commercial banks of the Kyrgyz Republic without assigned external credit rating.

14. CHARTER FUND

As at 31 December 2017 and 2016, and 1 January 2016 the Company's authorised charter fund is equal to 20,561 thousand som.

15. BORROWINGS

Long-term and short-term borrowings are as follows:

	31 December 2017	31 December 2016	1 January 2016
Long-term borrowings			
State Registration Service	9,000	-	-
Ministry of Finance of the Kyrgyz Republic (IDA № 5067- KG)	8,181	8,308	-
Total long-term borrowings	**17,181**	**8,308**	**-**

	31 December 2017	31 December 2016	1 January 2016
Short-term borrowings			
Ministry of Finance of the Kyrgyz Republic	21,709	26,902	28,166
Total short-term borrowings	**21,709**	**26,902**	**28,166**

On 10 July 2012, the Company signed a debt agreement with the Ministry of Finance of the Kyrgyz Republic ("MFKR"), under which it received an interest-free loan in amount of 50,000 thousand som. The loan was received to set up public service centres to provide citizens of the Kyrgyz Republic with national passports in accordance with the Government Resolution № 322-P dated 4 June 2012. The loan repayment period is 10 years from the agreement date with the grace period of 3 years. The difference between the carrying amount of the loan and its fair value as of 1 January 2016 was recognised as a grant liability in the amount of 13,781 thousand som. The amount of the discount amortised for years ended 31 December 2017 and 31 December 2016, is amounted to 1,704 thousand som and 1,921 thousand som, respectively.

Under the debt agreement, the MFKR is entitled to demand all necessary documents, as well as information relating to financial and economic of the Company's activities. As at 31 December 2017 and 2016, the Company failed to comply with paragraph 3.4 of the debt agreement with the MFKR:

- "The borrower undertakes (but no later than two months from the date the parties sign the debt obligation), to provide the creditor with all necessary documents, to conclude and certify collateral and register it in accordance with the legislation of the Kyrgyz Republic."

As at 31 December 2017 and 2016, the MFKR loan outstanding balance amounted to 32,758 thousand som and 39,655 thousand som, respectively. The total amount owed to MFKR was reclassified as a short-term liability with a repayment period of 1-3 months in the liquidity table in Note 19 of the financial statements. Except as described above, the Company has not breached any other terms of the debt obligation with the MFKR.

On 16 October 2017, the Company signed a financial assistance agreement with the State Registration Service ("SRS"), under which it received an interest-free loan in amount of 9,000 thousand som. The loan was received to cover the maintenance of information kiosks (salaries, social insurance, communication services, utilities and other expenses). According to the agreement the loan repayment period is 4 years with a grace period of 2 years. The Company undertakes to provide the SRS with quarterly reports on the implementation of financial assistance. As at 31 December 2017, the outstanding balance of the loan from the SRS amounted to 9,000 thousand som.

On 19 February 2014, the Company signed a loan agreement № 19-05/11 with the MFKR on the basis of which the Company will be receiving IDA loan № 5067-KG of 2,620,000 SDR (Special drawing rights) and IDA Grant № N 760-KG of 1,130,000 SDR. The funds were received within the framework of the Financing Agreement dated 11 July 2013 between the Kyrgyz Republic and the International Development Association for the project "Financial Sector Development" and in accordance with the Government Resolution № 16-R dated 25 January 2014.

In accordance with point 2.1 of the Loan Disbursement Agreement, loan funds are withdrawn from time to time in accordance with the established procedures to finance the "Financial Sector Development" project. In accordance with point 3.7 of the contract "Obligations and Rights of the Parties", the Company charges and pays interest of 0.5% per annum for unused loans amounts. On 1 November 2016, the Company received 120,000 USD.

The table below details changes in liabilities arising from financial activities, including changes both cash and non-cash changes. Liabilities arising from financial activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financial activities.

(in thousands of Kyrgyz Som)

	2017	2016
At the beginning of the year	35,210	28,166
Cash flow		
Proceeds from long-term borrowings	9,000	8,308
Repayment of short-term borrowings	(6,897)	(3,185)
Total Cash Flows	**2,103**	**5,123**
Non-monetary flows		
Loan discount amortisation	1,704	1,921
Effect from foreign currency revaluation	(127)	-
Total non-cash flows	**1,577**	**1,921**
At the end of the year	**38,890**	**35,210**

16. TRADE AND OTHER ACCOUNTS PAYABLE

	31 December 2017	31 December 2016	1 January 2016
Payables for subscription fees	65,761	60,476	66,580
Trade accounts payable	24,803	18,824	24,031
Payables on payments from customers	23,097	41,917	34,197
Salary payables	16,111	17,897	18,414
Payables for money transfers	13,197	9,698	7,873
Provision for unused vacation	8,846	5,959	-
Payables on pensions and benefits	5,144	3,005	6,046
Other liabilities	810	1,187	7,190
Total trade and other accounts payable	**157,769**	**158,963**	**164,331**

The average credit period for account payable does not exceed 1-3 months. Interest is not accrued on trade payables. Trade accounts payable mainly include the balance of purchased goods and services and operating expenses. As at 31 December 2017 and 2016, and as at 1 January 2016, trade and other accounts payable are denominated in Kyrgyz som.

Trade and other account payable include accounts payable on inventories and international post exchange services accounts payable.

The payables on the received transfers of pensions and benefits represents the funds transferred to the accounts of the Company and pending the disbursement to the population: the Company provides services for the payments of pensions, allowances, scholarships.

Funds intended for the payment of pensions are received by branches of the Company on a proxy basis from the distribution account of the Social Fund. The funds intended for the payment of benefits are transferred by the Ministry of Social Labor directly to the current bank accounts of the branches. The received funds are transferred by the branches of the Company to the post offices, which make payments to the population.

The payables attributable to payments received from customers represents the funds received by the Company from population for utilities, mobile services and fines for traffic offenses payments. The Company records accounts payable on accepted payments from customers and further transfers cashto contractors, such as the General Directorate for Road Safety of the Ministry of Internal Affairs of the Kyrgyz Republic and others.

The payables attributable to money transfers represent cash received by the Company for receiving and sending domestic and international money transfers.

As at 31 December 2017, 31 December 2016 and 1 January 2016, the Company had one creditor with the debt of 12,170 thousand som, 30,673 thousand som and 27,518 thousand som, respectively, or 8%, 19% and 17%.

(in thousands of Kyrgyz Som)

17. GRANT LIABILITIES

On 19 February 2014, the Company signed a loan agreement № 19-05/11 with the Ministry of Finance of the Kyrgyz Republic to receive IDA loan № 5067-KG of 2,620,000 SDR (Special Drawing Rights) at 1% interest and IDA Grant № N 760-KG of 1,130,000 SDR. The funds were received within the framework of the Financing Agreement dated 11 July 2013 between the Kyrgyz Republic and the International Development Association to develop the Financial Sector and in accordance with the Government Resolution № 16-R dated 25 January 2014. In accordance with the agreement the deadline for the implementation of the Financial Sector Development project was established as 20 June 2018. On 6 July 2018, the International Development Association, based on a request from the Ministry of Finance of the Kyrgyz Republic, extended deadline for the implementation of the Financial Sector Development project until 30 June 2020. In addition, the International Development Association decided to redistribute grant funds project beneficiaries and increased grant funds allocated to the Company from 1,130,000 SDR to 1,780,000 SDR.

The outstanding balance of the grant on IDA № N 760-KG account as at 31 December 2017 and 2016 and as at 1 January 2016 amounted to 33,900 thousand som, 29,216 thousand som and 31,634 thousand som, respectively (Note 13).

During 2016, the Company received property, plant and equipment within the framework of the Financial Sector Development project in amount of 12,483 thousand som and recorded it as a grant liability.

As at 31 December 2017 and 2016 and as at 1 January 2016, grant IDA № N 760-KG liabilities and grant liabilities under the agreement with MFKR dated 10 July 2012 (Note 15) are amounted to 48,833 thousand som, 44,836 thousand som and 45,415 thousand som, respectively.

For the years ended 31 December 2016 and 2017, grant expenses were as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Financial management consulting services	16,974	17,681
Project staff payroll costs	7,502	7,761
Financial services management consulting services	4,129	-
Information and communication technology advisory services	1,001	2,371
Other expenses	1,536	2,727
Total grant expenses	**31,142**	**30,540**

18. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties are assessed according to IAS 24 Related Party Disclosures. Related parties may enter into transactions that are not held between unrelated parties. The prices and conditions of such transactions may differ from the prices and conditions of transactions between unrelated parties.

When considering each possible related party, the content of the relationship between the parties is taken into account, not just its legal form.

(in thousands of Kyrgyz Som)

Below is a table indicating the balance of transactions with related parties as at 31 December 2017 and 2016:

	31 December 2017	Total by category according to financial statements	31 December 2016	Total by category according to financial statements
Statement of financial position				
Trade and other accounts receivable	465	54,431	466	48,463
Cash on hand and in bank	47,932	84,959	59,036	89,200
Trade and other accounts payable	1,000	157,769	310	158,963
Long-term borrowings	9,000	17,181	-	8,308

Included in the statement of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016 are the following amounts, which arose due to transactions with related parties:

	For the year ended 31 December 2017	Total by category according to financial statements	For the year ended 31 December 2016	Total by category according to financial statements
Revenue	16,043	597,011	14,537	577,182
Operating expenses	(523)	(598,159)	(520)	580,245

Company's management compensation is presented as follows:

	For the year ended 31 December 2017	Total by category according to financial statements	For the year ended 31 December 2016.	Total by category according to financial statements
Remuneration of key management	3,382	445,179	3,110	421,659

19. RISK MANAGEMENT POLICY

The main risks inherent in the Company's activities include currency risk, credit risk and liquidity risk. The Company does not use derivative financial instruments to mitigate such risks.

(in thousands of Kyrgyz Som)

Financial risk categories

Financial instruments as at 31 December 2017 and 2016 are presented as follows:

	31 December 2017	31 December 2016
Financial assets:		
Trade and other accounts receivable	42,911	29,144
Other financial assets	11,949	-
Cash on hand and in bank	84,959	89,200
Total financial assets	**139,819**	**118,344**
Financial liabilities:		
Long-term borrowings	17,181	8,308
Short-term borrowings	21,709	26,902
Trade and other accounts payable	132,002	133,920
Total financial liabilities	**170,892**	**169,130**
Net position	**(31,073)**	**(50,786)**

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company uses publicly available financial information and its own internal information to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

Trade receivables are mainly represented by receivables from the Social Fund of the Kyrgyz Republic. Other receivables consist of a small number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Except for the debt from the Social Fund of the Kyrgyz Republic, (Note 11), the Company does not have a significant concentration of credit risk per counterparty. The concentration of credit risk for the Social Fund during the year never exceeded 22% of the total monetary assets. The concentration of credit risk for each of the other counterparties during the year never exceeded 5% of the total amount of monetary assets.

The above carrying value of receivables represent the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations at maturity.

The table below shows the Company's fixed contractual repayment terms. Data is based on undiscounted cash flows for the Company's financial liabilities, proceeding from minimum deadlines for presenting repayment claims. Contractual maturity is defined as the earliest date on which the Company may be required to make a payment.

(in thousands of Kyrgyz Som)

	1-3 months	3 months-1 year	1–5 years	Total
Long-term borrowings	-	100	17,081	17,181
Short-term borrowings	21,709	-	-	21,709
Trade and other accounts payable	132,002	-	-	132,002
Total financial liabilities as at 31 December 2017	**153,711**	**100**	**17,081**	**170,892**
Long-term borrowings	-	-	8,308	8,308
Short-term borrowings	26,902	-	-	26,902
Trade and other accounts payable	133,920	-	-	133,920
Total financial liabilities as at 31 December 2016	**160,822**	**-**	**8,308**	**169,130**

Currency risk

The Company enters into transactions in foreign currency, which creates a risk of exchange rate differences.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities as at the reporting date is presented as follows:

	KGS thousand som	USD thousand som	Euro thousand som	Russian Roubles thousand som	31 December 2017 Thousand som
Assets					
Trade and other receivables	42,911	-	-	-	42,911
Other financial assets	11,949	-	-	-	11,949
Cash on hand and in bank	49,635	33,681	1,643	-	84,959
Total financial assets	**104,495**	**33,681**	**1,643**	**-**	**139,819**
Liabilities					
Long-term borrowings	(9,000)	(8,181)	-	-	(17,181)
Short-term borrowings	(21,709)	-	-	-	(21,709)
Trade and other accounts payable	(132,002)	-	-	-	(132,002)
Total financial liabilities	**(162,711)**	**(8,181)**	**-**	**-**	**(170,892)**
Net position	**(58,216)**	**25,500**	**1,643**	**-**	**(31,073)**

	KGS thousand som	USD thousand som	Euro thousand som	Russian Roubles thousand som	31 December 2016 Thousand som
Assets					
Trade and other accounts receivable	29,144	-	-	-	29,144
Cash on hand and in bank	60,108	28,405	2	685	89,200
Total financial assets	**89,252**	**28,405**	**2**	**685**	**118,344**
Liabilities					
Long-term borrowings	-	(8,308)	-	-	(8,308)
Short-term borrowings	(26,902)	-	-	-	(26,902)
Trade and other accounts payable	(133,920)	-	-	-	(133,920)
Total financial liabilities	**(160,822)**	**(8,308)**			**(169,130)**
Net position	**(71,570)**	**20,097**	**2**	**685**	**(50,786)**

(in thousands of Kyrgyz Som)

Currency risk sensitivity analysis

The following table presents an analysis of the Company's sensitivity to a 10% increase or decrease in USD or Euro exchange rate to the Kyrgyz som in 2017 and in 2016. Management believes that in current economic conditions in the Kyrgyz Republic, a 10% decrease represents a realistic change in the Kyrgyz som exchange rate to the USD or Euro in 2017 and 2016.

These levels of sensitivity used by the Company to prepare currency risk reports for key managerial personnel involve an assessment by the Company's management of possible changes in exchange rates. The sensitivity analysis includes only amounts in foreign currency available at the end of the period, which are converted at the end of the period by exchange rates by 10% as at 31 December 2017 and 31 December 2016. Company's management believes that income tax does not have a significant impact on currency risk management.

The following table shows the impact on net profit and equity of the value of assets as at 31 December 2017 and 2016:

	31 December 2017		31 December 2016	
		KGS/USD		KGS/USD
	+10%	-10%	+10%	-10%
Impact on profit or loss before income tax	2,550	(2,550)	2,010	(2,010)

	31 December 2017		31 December 2016	
		KGS/EURO		KGS/EURO
	+10%	-10%	+10%	-10%
Impact on profit or loss before tax	164	(164)	-	-

	31 December 2017		31 December 2016	
		KGS/Russian Roubles		KGS/Russian Roubles
	+10%	-10%	+10%	-10%
Impact on profit or loss before tax	-	-	69	(69)

Liquidity risk management

The final responsibility for managing liquidity risk lies with the management of the Company. The Company controls liquidity risk by maintaining sufficient reserves, the level of external borrowing and available borrowed funds, continuous monitoring of expected and actual cash flows and timing of the maturity of financial assets and liabilities.

Sensitivity analysis limitations

The tables presented above demonstrate the effect of changes in one of the key assumptions, while other assumptions remain unchanged. In reality, assumptions and other factors are interrelated. It is also necessary to note that sensitivity is not linear, and a greater or lesser influence cannot be obtained from these results by interpolation or extrapolation.

Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell as asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management considers that as at 31 December 2017 and 2016, and as at 1 January 2016, the carrying value of the financial assets and financial liabilities in the financial statements approximate their fair value.

20. CONTINGENT LIABILITIES

Legal proceedings

In the normal course of its operating activity, the Company may be the subject of legal proceedings and adjudications. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

Operating lease

As of December 31, 2016 and 2017 the Company did not have non-cancellable operating lease agreements.

Taxation

Kyrgyz Republic currently has a number of laws related to various taxes imposed by both state and regional governmental authorities, which are subject to review and investigation by a number of authorities that have the right by law to impose significant fines, penalties and interest charges. These facts result in tax risks in the Kyrgyz Republic, which are substantially more significant than those typically found in countries with more developed tax systems.

The management of the Company believes that it has accrued all tax amounts due and therefore no allowance should have been made in the financial statements.

Operating environment

Emerging markets such as the Kyrgyz Republic are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Kyrgyz Republic continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Kyrgyz Republic is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Management of the Company is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Bank's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Bank is at this stage difficult to determine.

21. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 29 March 2018, the Company signed an agreement with the State Registration Service under the Government of the Kyrgyz Republic to maintain information kiosks, whereby the Company received a subsidy of 40,000 thousand som to cover the information kiosk operating and maintenance costs under the Taza-Koom Project in accordance with the Government Resolution № 82-P dated 20 March 2018. Total funding is determined by approved cost estimates for each quarter in accordance with the agreement. According to the Government Resolution № 476 dated 31 December 2018, subsidies for 2019 will be 16,829 thousand som.

On 27 September 2018, within the framework of the Financial Sector Development project, the Company concluded a contract with "Baltic Amadeus infrastruktūros paslaugos"("BAIP") to purchase and install an information system in the amount of 2,799,789 USD, which in som equivalent at the time of signing the agreement is 193,325 thousand som.