

**State Agency on Mandatory Health Insurance**

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

**31 December 2018**

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Independent Auditor's Report

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## *Independent Auditor's Report*

To the Shareholder of "State Agency on Mandatory Health Insurance" Public Legal Entity

### *Our qualified opinion*

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects the consolidated financial position of "State Agency on Mandatory Health Insurance" Public Legal Entity (the Company) and its subsidiaries (together "the Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **What we have audited**

The Group's consolidated financial statements comprise:

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

### *Basis for qualified opinion*

We were appointed as auditors of the Group on 15 April 2019 and thus did not observe the counting of the physical inventories as at 31 December 2017 and 31 December 2018. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at either of those dates. Furthermore, we were unable to verify data from the accounting system or perform any other alternative procedures to satisfy ourselves with the appropriateness of the costing method and cost per unit determination. Since opening and closing inventories and the inventories recognised as an expense enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the consolidated statement of profit or loss and other comprehensive income, including comparative information, and the net cash flows from operating activities reported in the consolidated statement of cash flows, including comparative information. We were unable to determine whether adjustments might have been necessary in respect of the inventories balance in the consolidated statement of financial position as at 31 December 2017 and 31 December 2018.

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 consolidated financial statements* section of our report.

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

### **Independence**

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers Audit Azerbaijan LLC*

23 October 2019

Baku, the Republic of Azerbaijan

**State Agency on Mandatory Health Insurance  
Consolidated Statement of Financial Position**

<i>In Azerbaijani Manats</i>	Note	31 December 2018	31 December 2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	56,309,977	45,060,442
Other intangible assets	9	5,432,407	3,237,726
Non-current prepayments	12	762,520	3,191,071
<b>Total non-current assets</b>		<b>62,504,904</b>	<b>51,489,239</b>
<b>Current assets</b>			
Inventories	10	1,826,923	1,789,236
Trade and other receivables	11	208,624	397
Short-term prepayments	12	7,209	198,627
Cash and cash equivalents	13	7,974,381	7,494,084
Other current assets	14	1,087,892	89,493
<b>Total current assets</b>		<b>11,105,029</b>	<b>9,571,837</b>
<b>Total assets</b>		<b>73,609,933</b>	<b>61,061,076</b>
<b>Equity</b>			
Charter capital	15	4,000,000	-
Retained earnings		(70,319,763)	(30,776,789)
Other reserves		136,855,989	90,290,655
<b>Total equity</b>		<b>70,536,226</b>	<b>59,513,866</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	2,116,937	543,954
Current income tax payable		3,822	-
Other taxes payable	16	952,948	1,003,256
<b>Total current liabilities</b>		<b>3,073,707</b>	<b>1,547,210</b>
<b>Total liabilities</b>		<b>3,073,707</b>	<b>1,547,210</b>
<b>Total liabilities and equity</b>		<b>73,609,933</b>	<b>61,061,076</b>

Approved for issue and signed on 23 October 2019.



Mr. Zaur Aliyev  
Chief Executive Officer

Mr. Rasim Hasanov  
Chief Financial Officer

The accompanying notes on pages 5 to 31 are an integral part of these financial statements.

**State Agency on Mandatory Health Insurance**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

<i>In Azerbaijani Manats</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Revenue	19	1,543,106	1,076,015
Cost of services	20	(30,340,448)	(26,273,659)
<b>Gross profit</b>		<b>(28,797,342)</b>	<b>(25,197,644)</b>
Other income	18	534,718	2,352,802
General and administrative expenses	21	(11,306,440)	(7,311,487)
<b>Operating profit</b>		<b>(39,569,064)</b>	<b>(30,156,329)</b>
Finance income	22	29,912	-
<b>Loss before income tax</b>		<b>(39,539,152)</b>	<b>(30,156,329)</b>
Income tax expense	23	(3,822)	-
<b>Loss for the year</b>		<b>(39,542,974)</b>	<b>(30,156,329)</b>
<b>Total comprehensive loss for the year</b>		<b>(39,542,974)</b>	<b>(30,156,329)</b>

The accompanying notes on pages 5 to 31 are an integral part of these financial statements.

**State Agency on Mandatory Health Insurance**  
**Consolidated Statement of Changes in Equity**

<i>In Azerbaijani Manats</i>	Note	Charter Capital	Other reserves	Accumulated deficit	Total equity
<b>At 1 January 2017</b>		-	12,000,000	(620,460)	11,379,540
Loss for the year		-	-	(30,156,329)	(30,156,329)
Total comprehensive loss for 2017		-	-	(30,156,329)	(30,156,329)
Contribution from government		-	33,539,363	-	33,539,363
Transfer of net assets under common control	26	-	44,751,292	-	44,751,292
<b>Balance at 1 January 2018</b>		-	90,290,655	(30,776,789)	59,513,866
Loss for the year		-	-	(39,542,974)	(39,542,974)
Total comprehensive loss for 2018		-	-	(39,542,974)	(39,542,974)
Charter capital established	15	4,000,000	-	-	4,000,000
Contribution from government		-	32,918,745	-	32,918,745
Transfer of net assets under common control	26	-	13,646,589	-	13,646,589
<b>Balance at 31 December 2018</b>		4,000,000	136,855,989	(70,319,763)	70,536,226

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**State Agency on Mandatory Health Insurance**  
**Consolidated Statement of Cash Flows**

<i>In Azerbaijani Manats</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Profit/(Loss) before income tax		(39,539,152)	(30,156,329)
Adjustments for:			
Depreciation and impairment of property, plant and equipment	8	6,278,180	6,208,970
Amortisation and impairment of other intangible assets	9	65,837	26,103
Impairment of trade and other receivables	11	2,258	5,145
Change in provision for obsolete inventory		261,454	505,608
Net loss on disposal of property, plant and equipment		667	69,605
Other income from in-kind donated assets	18	(527,455)	(2,352,802)
Finance income	22	(29,912)	-
<b>Operating cash flows before working capital changes</b>		<b>(33,488,123)</b>	<b>(25,693,700)</b>
Decrease/(increase) in trade and other receivables		3,951	(4,850)
Decrease/(increase) in prepayments		191,418	(112,859)
Decrease/(increase) in inventories		(20,860)	(703,877)
Decrease/(increase) in other current assets		(998,401)	(88,967)
Increase/(decrease) in trade and other payables		1,542,389	444,303
Increase/(decrease) in taxes payable		(50,308)	979,946
<b>Changes in working capital</b>		<b>668,189</b>	<b>513,696</b>
Interest income received	22	29,912	-
<b>Net cash used in operating activities</b>		<b>(32,790,022)</b>	<b>(25,180,004)</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(2,444,709)	(7,066,285)
Acquisition of intangible assets		(1,203,717)	(4,827,034)
<b>Net cash used in investing activities</b>		<b>(3,648,426)</b>	<b>(11,893,319)</b>
<b>Cash flows from financing activities</b>			
Capital contributions from shareholder to charter capital		4,000,000	-
Capital contributions from shareholder other than charter capital		32,918,745	33,539,363
<b>Net cash from financing activities</b>		<b>36,918,745</b>	<b>33,539,363</b>
<b>Cash and cash equivalents at the beginning of the year</b>	13	<b>7,494,084</b>	<b>11,028,044</b>
<b>Cash and cash equivalents at the end of the year</b>	13	<b>7,974,381</b>	<b>7,494,084</b>

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