AFGHAN TELECOM

Audited financial statements
For the year ended December 21, 2018

Crowe

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Afghan Telecom

Opinion

We have audited the financial statements of **Afghan Telecom** ("The Company"), which comprise the statement of financial position as at 21 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of financial position of the Company as at 21 December 2018, and of its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibility 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

We communicate with management 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.

Crowe Horwath Afghanistan
Auditors and Business Advisors

Crowe Horwath Afg.

Engagement Partner: Hakimullah Shukoor
Location: Kabul, Afghanistan
Date: January 04, 2021

Crowe Horwath Afghanistan
04 JAN 2021
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AFGHAN TELECOM
STATEMENT OF FINANCIAL POSITION
AS AT 30 QAWS 1397 (21 DECEMBER 2018)

	Note	2018 AFN	2017 AFN
ASSETS			
Non-current assets			
Property and equipment	6	**6,329,593,984**	7,173,908,285
Intangible assets	7	**1,074,760,260**	1,209,485,760
		7,404,354,244	8,383,394,045
Current assets			
Inventories	8	**58,823,104**	132,319,598
Trade and other receivables	9	**4,093,670,136**	3,997,436,791
Grant receivables	10	**48,155,413**	946,715,752
Advances, deposits and Prepayments	11	**4,138,217,634**	442,441,305
Cash and bank balances	12	**4,241,388,159**	5,363,395,645
		12,580,254,446	10,882,309,091
Total assets		**19,984,608,690**	19,265,703,136
EQUITY AND LIABILITIES			
Equity			
Capital contributed by Ministry of Communication and Information Technology (MCIT)		**11,760,607,959**	11,760,607,959
Retained earnings		**138,113,879**	(1,238,133,149)
Total equity		**11,898,721,838**	10,522,474,810
Non-current liabilities			
Deferred government grants	13	**1,222,167,299**	2,071,350,380
Deferred taxation	14	**342,873,902**	123,404,609
		1,565,041,201	2,194,754,989
Current liabilities			
Trade and other payables	15	**3,036,770,903**	3,566,411,432
Accrued and other liabilities	16	**487,055,843**	471,239,190
Taxes and duties payable	17	**563,692,386**	309,127,707
Security deposits	18	**5,957,162**	11,096,694
Unearned revenue	19	**2,427,369,357**	2,190,598,314
		6,520,845,651	6,548,473,337
Contingencies and commitments	20	**-**	-
Total equity and liabilities		**19,984,608,690**	19,265,703,136

The annexed notes, from 1 to 30, form an integral part of these financial statements.

CFO / CEO (ACTING)

ACCOUNTS & FINANCE DIRECTOR

AFGHAN TELECOM
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

	Note	2018	2017
		AFN	AFN
Revenue	21	9,880,238,082	9,250,545,830
Cost of services	22	(5,779,166,252)	(5,986,200,905)
Gross profits		4,101,071,830	3,264,344,925
Selling, marketing and administrative expenses	23	(1,623,259,274)	(1,554,034,153)
Business receipts tax	24	(1,014,490,696)	(941,596,084)
Other income	25	346,303,361	280,611,250
Profit before taxation		1,809,625,221	1,049,325,938
Taxation	26	(433,378,193)	(56,275,137)
Profit for the year		1,376,247,028	993,050,801
Other comprehensive income		-	-
Total comprehensive income		1,376,247,028	993,050,801

The annexed notes, from 1 to 30, form an integral part of these financial statements.

CFO / CEO (ACTING)

ACCOUNTS & FINANCE DIRECTOR

AFGHAN TELECOM
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

	Capital contributed by MCIT	Retained earnings	Total
	----------------------- AFN -----------------------		
At 1 Jaddi 1395	11,748,246,011	(2,231,183,950)	9,517,062,061
Assets transferred by Ministry of	-	-	-
Communication and Information	-	-	-
Technology (MCIT) during the year	12,361,948	-	12,361,948
Profit for the year	-	993,050,801	993,050,801
Other comprehensive income	-	-	-
Total comprehensive income	-	993,050,801	993,050,801
At 30 Qaws 1396	11,760,607,959	(1,238,133,149)	10,522,474,810
At 1 Jaddi 1396	**11,760,607,959**	**(1,238,133,149)**	**10,522,474,810**
Assets transferred by Ministry of	**-**	**-**	**-**
Communication and Information	**-**	**-**	**-**
Technology (MCIT) during the year	**-**	**-**	**-**
Profit for the year	**-**	**1,376,247,028**	**1,376,247,028**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**1,376,247,028**	**1,376,247,028**
At 30 Qaws 1397	**11,760,607,959**	**138,113,879**	**11,898,721,838**

The annexed notes, from 1 to 30, form an integral part of these financial statements.

CFO / CEO (ACTING)

ACCOUNTS & FINANCE DIRECTOR

AFGHAN TELECOM

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

	Note	2018 AFN	2017 AFN
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**1,809,625,221**	1,049,325,938
Non-cash adjustments:			
Depreciation	6.1	**1,482,615,865**	1,559,317,251
Amortization	7.1	**140,132,205**	139,910,645
Provision for doubtful debts	23	**75,045,061**	111,207,961
Provision against slow moving stock	23	**39,215,404**	-
Amortization of deferred government grants	25	**(221,330,531)**	(216,872,751)
		3,325,303,225	2,642,889,044
Working capital changes:			
(Increase) in inventories		**34,281,090**	(3,137,428)
Decrease in trade and other receivables		**(171,278,405)**	661,692,567
Increase in advances, deposits and prepayments		**(3,695,776,329)**	(221,613,565)
(Decrease) in trade and other payables		**(529,640,529)**	(793,767,227)
Increase in accrued and other liabilities		**15,816,653**	(486,139,843)
(Decrease) in tax and duties payable		**40,655,778**	(842,702,252)
(Decrease) in security deposits		**(5,139,532)**	(9,234,087)
Increase in unearned revenue		**236,771,043**	747,431,053
		(4,074,310,231)	(947,470,782)
Income tax paid		**-**	-
Net cash generated from operating activities		**(749,007,006)**	1,695,418,262
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	6.1	**(638,301,564)**	(988,309,830)
Additions to intangible assets	7	**(5,406,705)**	(772,280)
Net cash used in investing activities		**(643,708,269)**	(989,082,110)
CASH FLOWS FROM FINANCING ACTIVITIES			
Grant received		**270,707,789**	291,706,894
Capital contributed by MCIT		**-**	12,361,948
		270,707,789	304,068,842
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(1,122,007,486)**	1,010,404,994
CASH AND CASH EQUIVALENTS AS AT 01 JADI		**5,363,395,645**	4,352,990,651
CASH AND CASH EQUIVALENTS AT 30 QAWS	12	**4,241,388,159**	5,363,395,645

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The annexed notes, from 1 to 30, form an integral part of these financial statements.

CFO / CEO (ACTING)

ACCOUNTS & FINANCE DIRECTOR

1 THE COMPANY AND ITS OPERATIONS

Afghan Telecom ("the Company") was registered with Afghanistan Investment Support Agency (AISA) as a telecommunication company bearing License No: D-22427 dated 6 June 2005 (16 Jawza 1384). The Company was established to undertake the telecommunication business formerly carried on by telecommunication department of Ministry of Communication and Information Technology (MCIT) of the Islamic Republic of Afghanistan. The Company is wholly owned by Ministry of Communication and Information Technology (MCIT).

The registered office of the Company is located at 4th floor Post Parcel Building, Ministry of Communication and Information Technology (MCIT), Muhammad Jan khan Watt, Kabul, Afghanistan, having its branch offices in all over 34 provinces of the Islamic Republic of Afghanistan.

The Company provides the telecommunication services within Afghanistan. It owns and operates telecommunication facilities and provides domestic and international telephone services and other communication facilities throughout Afghanistan.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB).

2.1 Amendments to IFRSs that are mandatorily effective for the current year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

Amended standards and interpretations

The Company has adopted the following amended IFRSs and IFRIC interpretation which became effective during the period:

- Ammendments to IAS 7 Statement of Cash Flows relating to disclosure initiatives
- Amendments to IFRS 12 Disclosure of Interests in Other Entities resulting from Annual Improvements to IFRS 2014–2016 Cycle regarding clarifying the scope of the standard
- Ammendments to IAS 12 Income Taxes regarding the recognition of deferred tax assets for unrealised losses

The adoption of the above amendments and interpretations did not have any material effect on the financial statements.

2.2 The following International Financial Reporting Standards (IFRSs), interpretations and amendments to IFRSs are effective for accounting periods beginning from the dates specified below.

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2023
IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4	1 January 2018
Transfers of Investment Property (Amendments to IAS 40)	1 January 2018
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2018

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IFRIC Interpretation 22 Foreign Currency Transactions and Advance	1 January 2018
Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (amendments to IAS 28)	1 January 2019
IFRIC Interpretation 23 Uncertainty over Income Tax Treatment	1 January 2019
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	Not yet finalized

IFRS 15, IFRS 9, IFRS 16 will have significant impact on the amounts and disclosures in the financial statements. Impact evaluation of these standards is disclosed below. Other standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Company.

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)

IFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. The Company has decided to apply the modified approach for transition to IFRS 15, which implies:

– Comparative figures for comparative period will not be restated.
– Disclosures reconciling each financial statement line item in year of adoption with the previous IFRS standards and interpretations, and explanations will be provided for significant changes.
– The cumulative effect of initially applying IFRS 15 shall be recognised as an adjustment to opening balance 22 December 2018.

The main implications from the implementation of IFRS 15 are the following:

Set-up and installation fees: The Company charges upfront set-up and installation fees to customers acquiring fiber optic services, internet services and fixed line phone services. Under IAS 18, revenue was recognised upfront when the installation was completed. Under IFRS 15, installation service is not considered as a distinct performance obligation and one-time fee pertaining to set-up and installation shall be added to the total transaction price and will be recognised over the period of service, resulting in the change in timing of revenue recognition.

Sale of SIM cards: represents a distinct performance obligation to connect the customers to the Company's network and therefore revenue is recognised at point in time when the SIM card is sold and service is activated. No change is expected for timing and amount of revenue in case of sale of SIM cards.

Hybrid offer or bundled packages: Under IFRS 15, the Company is required to account for individual products and services separately if they are distinct i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it. The consideration is allocated between separate product and services (i.e. distinct performance obligations) in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the observable price at which the Company sells the products and services on a standalone basis. For items that are not sold separately, the Company will be required to estimate standalone selling prices using other methods (i.e. adjusted market assessment approach, cost plus margin approach or residual approach).

Gross versus net presentation: Under IFRS 15, when revenue is recognised in respect of goods or services provided by third parties it must be considered whether the Company acts as a principal or an agent. Whether the Company is considered to be the principal or an agent in the transaction depends on management analysis of both the legal form and of the substance of the underlying agreement between the Company and its channel partners. Such judgements would impact the amount of reported revenue and operating expenses, however, impact is considered as not significant.

Incremental cost for obtaining a contract: Incremental costs for obtaining a contract, such as sales commissions are currently expensed as incurred, however, IFRS 15 requires capitalisation of such costs if the amortisation period is more than 12 months. The amortisation period is the expected contract period, including renewals. Amortisation of the capitalised cost of obtaining a customer will be charged to profit or loss.

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IFRS 9 Financial Instruments (effective 1 January 2018)

IFRS 9 requires the classification and measurement of financial assets based on their contractual cashflows and business model resulting in following categories of financial assets:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI) with cumulative gains and losses classified to profit or loss upon derecognition
- Debt instruments, derivatives and equity instruments at fair value through profit or loss (FVTPL)
- Equity instruments designated at FVOCI with no recycling on gains and losses upon derecognition

For financial liabilities, all the requirements of IAS 39 have been carried forward to IFRS 9. The only change is where fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces new impairment requirements based on forward-looking Expected Credit Loss (ECL) model. The model applies to debt instruments measured at amortized cost or at FVOCI as well as lease receivables, trade receivable, contract assets (as defined in IFRS 15), loan commitments and financial guarantee contracts that are not at FVTPL. The measurement of expected loss is based on reasonable and supporting information that is available without undue cost and effort and which include information on past events, current and foreseeable future conditions and circumstances. When estimating the expected credit loss, historical probabilities of non-collection are usually used, complemented with future parameters relevant to the credit risk. IFRS 9 proposes three approaches towards applying impairment requirements and these include:

(a) General approach

(b) Simplified approach

(c) Purchased or originated credit-impaired approach.

Simplified approach, which applies to lease receivables, trade receivables and contract assets (as defined in IFRS 15) does not require the tracking of changes in the credit risk, but instead requires the recognition of life time expected credit losses at all times. The Company will follow simplified approach in recognizing expected credit losses.

IFRS 16 Leases (effective 1 January 2019)

IFRS 16 replaces existing leases guidance, including IAS17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases- Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is applicable for annual periods beginning on or after 1 January 2019, however, early adoption is permitted.

IFRS 16 introduces a single comprehensive, on-balance sheet lease accounting model for lessees. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

3 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

(a) Useful life and residual value of property and equipment (note 6)

The Company reviews the useful lives and residual values of fixed assets and intangible assets on regular basis. Any change in estimates may affect the carrying amounts of the respective items of property and equipment and intangible assets, with a corresponding effect on the related depreciation / amortization charge.

(b) Provision for doubtful receivables (note 9)

A provision against overdue receivable balances is recognized after considering the pattern of receipts from, and the future financial outlook of, the concerned receivable party. It is reviewed by the management on regular basis.

(c) Provisions and contingent liabilities (note 16 and 20)

The management exercises judgment in measuring and recognizing provisions and the exposures to contingent liabilities related to pending litigations or other outstanding claims. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods for which financial information is presented in these financial statements, unless otherwise stated.

5.1 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These financial statements are presented in Afghanis, which is also the Company's functional currency.

5.2 Foreign currency transactions and translations

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities, denominated in foreign currencies, are translated into the functional currency using the exchange rate prevailing on the date of the statement of financial position. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary items at period-end exchange rates, are charged to income for the period.

5.3 Government grants

Government grants are recognized at their fair value as deferred income, when there is reasonable assurance that the grant will be received and the Company will comply with conditions associated with the grant.

Grants that compensate the Company for expenses incurred, are recognized on a systematic basis in the income for the period in which the related expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized in income on a systematic basis over the expected useful life of the related asset.

5.4 **Trade and other payables**

Liabilities for creditors and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the

5.5 **Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

5.6 **Contingent liabilities**

A contingent liability is disclosed when the Company has a possible obligation as a result of past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Company; or when the Company has a present legal or constructive obligation, that arises from past events, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

5.7 **Operating fixed assets**

(a) Property and equipment

Property and equipment, except freehold land and capital work-in-progress, is stated at cost less accumulated depreciation and any identified impairment losses, Freehold land is stated at cost. Capital work-in-progress is stated at cost less impairment value, if any. It consists of expenditure incurred and advances made in respect of tangible and intangible fixed assets in the course of their construction and installation. Cost includes expenditure, related overheads, mark-up and borrowing costs that are directly attributable to the acquisition of the asset.

Subsequent costs, if reliably measurable, are included in the asset's carrying amount, or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the cost will flow to the Company. The carrying amount of any replaced parts as well as other repairs and maintenance costs, are charged to income during the period in which they are incurred.

Depreciation on assets is calculated, using the straight-line method, to allocate their cost over their estimated useful lives, at the rates mentioned in note 6.

Depreciation on additions to property and equipment, is charged from the date on which the relevant asset is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off. Impairment loss, if any, or its reversal, is also charged to income for the period. Where an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, over its estimated useful life.

The gain or loss on disposal of an asset, calculated as the difference between the sale proceeds and the carrying amount of the asset, is recognized in income for the period.

(b) Intangible assets

(i) Licenses

These are carried at cost less accumulated amortization and any identified impairment losses. Amortization is calculated using the straight line method, to allocate the cost of the license over its estimated useful life specified in note 7 and is charged to income for the period.

The amortization on licenses acquired during the period, is charged from the date in which a license is acquired / capitalized, while no amortization is charged in the month of expiry / disposal of the license.

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(ii) Gain or loss policy on disposal of Licences & Computer software

These are carried at cost less accumulated amortization and any identified impairment losses. Amortization is calculated, using the straight line method, to allocate the cost of software over their estimated useful lives, at the rates specified in note 7, and is charged to income for the period. Costs associated with maintaining computer software, are recognized as an expense as and when incurred.

Amortization on additions to computer software, is charged from the date in which the software is acquired or capitalized, while no amortization is charged for the month in which the software is disposed off.

Gain or loss on disposal of Computer software

5.8 **Impairment of non-financial assets**

Assets that have an indefinite useful life, for example freehold land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment on the date of the statement of financial position, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized, equal to the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non financial assets that suffered an impairment, are reviewed for possible reversal of the impairment at each statement of financial position date. Reversals of the impairment loss are restricted to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized. An impairment loss, or the reversal of an impairment loss, are both recognized in the income for the period.

5.9 **Inventories**

These are stated at the lower of cost and "(NRV)" after net realizable value. Cost is determined using the FIFO method. Items in transit are valued at cost, comprising invoice values and other related charges incurred up to the date of the statement of financial position.

NRV is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

5.10 **Trade and other receivables**

Trade debts are carried at their original invoice amounts, less any estimates made for doubtful debts based on a review of all outstanding amounts at the period end. Bad debts are written off when identified. A provision is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. The amount of provision is charged to profit or loss. Trade and other receivables considered irrecoverable are written off.

5.11 **Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expires. All financial assets and liabilities are initially recognized at fair value plus transaction costs other than financial assets and liabilities carried at fair value through profit or loss. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to income for the period. These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on derecognition of financial assets and financial liabilities is included in income for the period.

(i) **Financial assets**

(a) Classification and subsequent measurement

The Company classifies its financial assets in the following categories: fair value through profit or loss, held-to-maturity investments, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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(b) Impairment

The Company assesses at the end of each reporting period whether there is an objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(ii) Financial Liabilities

Classification, initial recognition and subsequent measurement

The Company classifies its financial liabilities in the following categories: at fair value through profit or loss and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, also include directly attributable transaction costs.

The subsequent measurement of financial liabilities depends on their classification, as follows:

(i) Fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as being at fair value through profit or loss. The Company has not designated any financial liability, upon recognition, as being at fair value through profit or loss.

(ii) Other financial liabilities

After initial recognition, other financial liabilities which are interest bearing subsequently measured at amortized cost, using the effective interest rate method. Gain and losses are recognized in the profit and loss account, when the liabilities are derecognized as well as through effective interest rate amortization

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit and loss account.

(iii) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if the Company has a legally enforceable right to set-off the recognized amounts, and the Company either intends to settle on a net basis, or realize the asset and settle the liability simultaneously.

5.12 **Cash and cash equivalents**

Cash and cash equivalents are carried at cost. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand and short-term highly liquid investments with original maturities of three months or less, and that are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

5.13 **Revenue recognition**

Revenue comprises of the fair value of the consideration received or receivable, for the provision of telecommunication, broadband and related services in the ordinary course of the Company's activities.

The Company principally obtains revenue from providing telecommunication services such as wire line and wireless services, interconnect, data services and equipment sales. Equipment and services may be sold separately or in a bundled package.

Revenue is recognized, when it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of revenue and the associated cost incurred or to be incurred can be measured reliably, and when specific criteria have been met for each of the Company's activities as described below:

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(i) Rendering of telecommunication services

Revenue from telecommunication services comprises of amounts charged to customers in respect of wire line and wireless services, equipment sales and interconnect, including data services. Revenue also includes the income received or receivable from revenue sharing arrangements entered into with overseas and local telecommunication operators.

(a) Fixed line services

Post-paid

Revenue from post-paid packages is recognized based upon actual usage of services by the customers.

Prepaid

Revenue from prepaid cards is recognized as the related minutes are consumed by the customers. Amounts received for airtime not utilized by the customers are transferred to unearned revenue.

(b) Optical fiber cable

Revenue from optical fiber cable services, mainly in respect of line rent, line usage is invoiced and recorded as part of a periodic billing cycle.

(c) Interconnect-CDMA and GSM services

Postpaid

Revenue from postpaid packages is recognized based upon actual usage of services by the customers.

Prepaid

Revenue from prepaid cards is recognized as the related minutes are consumed by the customers. Amounts received for airtime not utilized by the customers are transferred to unearned revenue.

(d) Internet services

Revenue from internet services is recognized when the services are rendered to the customers, on a time apportionment basis.

(e) Interconnect services

Revenue from interconnect services is recognized when the services are rendered.

(f) Sales of equipment

Revenue from sale of equipment is recognized when the equipment is delivered to the end customer and risk of return expires.

(ii) Income on bank deposits

Return on bank deposits is recognized by applying effective interest rate method.

5.14 Taxation

The tax expense for the period comprises of current and deferred income tax, and is recognized in income for the period, except to the extent that it relates to items recognized directly in other comprehensive income, in which case the related tax is also recognized in other comprehensive income.

(i) Current

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. Management periodically evaluates positions taken in tax returns, with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred

Deferred income tax is accounted for using the balance sheet method, in respect of all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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Deferred income tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse, and the tax rates that have been enacted, or substantively enacted, by the date of the statement of financial position.

5.15 Employee benefits

(i) Provident fund (known as pension fund)

The Company operates a defined contribution plan for its all permanent employees. According to this plan, a separate bank account, non interest bearing, has been established for this plan. An amount equal to 8% is deducted from basic salary of an employee, and equal contribution is made by the Company and then total amount is deposited into the dedicated bank account.

This deduction is treated as pension fund payable in the books of accounts.

(ii) Funeral allowance

At the time of retirement, each employee receives allowance amounting to Afghanis 200,000 in addition to their pension fund.

(iii) Medical allowance

Employees are eligible for disbursement as per policy of the Company, which is charged as expense in the books of accounts.

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6. PROPERTY AND EQUIPMENT

	Note	2018 AFN	2017 AFN
Operating fixed assets	6.1	**4,499,823,759**	5,337,192,727
Capital work in progress	6.2	**1,829,770,225**	1,836,715,558
		6,329,593,984	7,173,908,285

6.1 Operating fixed assets

	Freehold land	Building	Network equipment	Computer equipment	Furniture and fixtures	Vehicles	Office equipment	Total
	AFN							
Cost								
At 1 Jaddi 1395	3,203,000	138,580,201	14,599,586,674	132,794,685	30,559,168	127,664,540	59,100,949	15,091,489,217
Additions during the year	600,000	18,736,205	1,699,111,075	7,204,030	3,240,507	863,000	16,912,227	1,746,667,044
At 30 Qaws 1396	3,803,000	157,316,406	16,298,697,749	139,998,715	33,799,675	128,527,540	76,013,176	16,838,156,261
Additions during the year	**908,000**	**5,773,512**	**602,114,261**	**4,519,763**	**5,246,906**	**8,581,824**	**18,102,631**	**645,246,897**
At 30 Qaws 1397	**4,711,000**	**163,089,918**	**16,900,812,010**	**144,518,478**	**39,046,581**	**137,109,364**	**94,115,807**	**17,483,403,158**
At 1 Jaddi 1395	-	31,234,773	9,659,722,922	105,561,469	25,921,216	77,798,773	41,407,130	9,941,646,283
Depreciation for the year	-	14,764,771	1,489,580,075	21,787,477	3,836,377	16,987,795	12,360,756	1,559,317,251
At 30 Qaws 1396	-	45,999,544	11,149,302,997	127,348,946	29,757,593	94,786,568	53,767,886	11,500,963,534
Depreciation for the year	-	**16,226,065**	**1,412,987,804**	**14,991,872**	**3,298,125**	**18,713,490**	**16,398,509**	**1,482,615,865**
At 30 Qaws 1397	-	**62,225,609**	**12,562,290,801**	**142,340,818**	**33,055,718**	**113,500,058**	**70,166,395**	**12,983,579,399**
Net book value								
At 30 Qaws 1397	**4,711,000**	**100,864,309**	**4,338,521,209**	**2,177,660**	**5,990,863**	**23,609,306**	**23,949,412**	**4,499,823,759**
At 30 Qaws 1396	3,803,000	111,316,862	5,149,394,752	12,649,769	4,042,082	33,740,972	22,245,290	5,337,192,727
Rate of depreciation		**10%**	**10%**	**33%**	**33%**	**20%-33%**	**25%-33%**	

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		Note	2018 AFN	2017 AFN
6.1.1	**Depreciation charge has been allocated as follows:**			
	Cost of services	22	**1,412,987,804**	1,489,580,075
	Selling, marketing and administrative expenses	23	**69,628,061**	69,737,176
			1,482,615,865	1,559,317,251
6.2	**CAPITAL WORK IN PROGRESS**			
	Opening balance		**2,205,269,400**	2,963,626,614
	Add: additions for the year	6.2.1	**388,665,680**	392,178,370
	Less: transferred during the year	6.2.2	**(395,611,013)**	(1,150,535,584)
			2,198,324,067	2,205,269,400
	Less: impairment for long-outstanding projects	6.2.3	**(275,916,289)**	(275,916,289)
	Less: provision for obsolete items	6.2.4	**(92,637,553)**	(92,637,553)
			(368,553,842)	(368,553,842)
			1,829,770,225	1,836,715,558

6.2.1 This represents capital expenditure for expansion and up gradation of telecommunication network throughout the Afghanistan.

6.2.2 This represents transfer from capital work in progress to property and equipment as addition during the year.

6.2.3 In the prior year, the company has recognized impairment loss after evaluation of expenditure incurred on long outstanding uncompleted capital projects.

6.2.4 This represents specific provision against obsolete items of network equipment.

7 INTANGIBLE ASSETS

	License	Software	Total
		AFN	
Cost			
At 1 Jaddi 1395	2,005,000,000	607,764,455	2,612,764,455
Additions during the year	499,000	273,280	772,280
At 30 Qaws 1396	2,005,499,000	608,037,735	2,613,536,735
Additions during the year	**3,616,705**	**1,790,000**	**5,406,705**
At 30 Qaws 1397	**2,009,115,705**	**609,827,735**	**2,618,943,440**
Rate of amortization	6.67%	1% - 10%	
Accumulated Amortization			
Amortization			
At 1 Jaddi 1395	1,163,083,106	101,057,224	1,264,140,330
Amortization during the year (note 7.1)	133,833,000	6,077,645	139,910,645
At 30 Qaws 1396	1,296,916,106	107,134,869	1,404,050,975
Amortization during the year (note 7.1)	**134,033,928**	**6,098,277**	**140,132,205**
At 30 Qaws 1397	**1,430,950,034**	**113,233,146**	**1,544,183,180**
Net book value			
At 30 Qaws 1397	**578,165,671**	**496,594,589**	**1,074,760,260**
At 30 Qaws 1396	708,582,894	500,902,866	1,209,485,760

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		Note	2018 AFN	2017 AFN
7.1	**Amortization charged has been allocated as follows:**			
	Cost of services	22	**134,033,928**	133,833,000
	Selling, marketing and administrative expenses	23	**6,098,277**	6,077,645
			140,132,205	139,910,645
8	**INVENTORIES**			
	Telephones and handsets		**5,882,310**	7,939,175
	Scratch cards and sim cards		**49,019,254**	92,623,719
	Accessories		**43,136,944**	31,756,704
			98,038,508	132,319,598
	Provision for slow moving stock		**(39,215,404)**	-
			58,823,104	132,319,598
8.1	**Movement during the year**			
	Opening balance		**132,319,598**	129,182,170
	Purchased during the year		**40,330,568**	82,031,823
	Sold during the year		**(74,611,658)**	(78,894,395)
	Closing balance		**98,038,508**	132,319,598
9	**TRADE AND OTHER RECEIVABLES**			
	Considered good- unsecured	9.1	**4,093,670,136**	3,997,436,791
	Considered doubtful		**1,443,204,008**	1,368,158,949
			5,536,874,144	5,365,595,740
	Less: provision for doubtful debts	9.2	**(1,443,204,008)**	(1,368,158,949)
			4,093,670,136	3,997,436,791
9.1	**Considered good- unsecured**			
	Government			
	Government institutes		**46,492,636**	54,542,993
	Telecommunication Development Fund		**51,359,292**	42,977,054
	Other ministries		**43,798,864**	116,053,231
			141,650,792	213,573,278
	Global organization			
	US army		**315,716,773**	379,923,362
	European Commission		**14,849**	13,069
	World Bank		**4,409,847**	4,409,847
			320,141,469	384,346,278
	Corporate and other customers			
	Corporate customers		**2,309,137,067**	2,491,149,374
	Other / District communication network		**17,599,865**	12,667,117
	Telecommunication operators		**1,305,140,943**	895,700,744
			3,631,877,875	3,399,517,235
			4,093,670,136	3,997,436,791
9.2	**Provision for doubtful debts**			
	Opening balance		**1,368,158,949**	1,256,950,988
	Add: provision for the year	23	**75,045,059**	111,207,961
			1,443,204,008	1,368,158,949

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AFGHAN TELECOM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)

		Note	2018 AFN	2017 AFN
10	**GRANT RECEIVABLES**	10.1	**48,155,413**	946,715,752

10.1 This represents grant receivable balance from Afghanistan Telecommunication Regulatory Authority (ATRA) under Telecom Development Fund (TDF) (a Government formed agency) as an assistance towards the development of telecommunication infrastructure in rural areas which comprises of telecom infrastructure projects for basic telecom access, transmission and Individual Voice Telephony services spread over the country.

		Note	2018 AFN	2017 AFN
11	**ADVANCES, DEPOSITS AND PREPAYMENTS**			
	Advance - withholding tax		**157,308,451**	170,720,232
	Advance - ATRA fee		**735,519,440**	-
	Advance - MCIT-10% TSF		**78,010,127**	60,000,000
	Advance against purchases		**57,025,543**	47,466,563
	Advance to MoF		**2,723,473,468**	-
	Advance to Vendors		**248,957,708**	-
	Advance against salaries		**1,684,565**	319,749
			4,001,979,302	278,506,544
	Provision against advance		**(2,523,127)**	(2,507,158)
			3,999,456,175	275,999,386
	Deposits		**135,313,469**	66,136,821
	Prepayments		**3,447,990**	100,305,098
			4,138,217,634	442,441,305
12	**CASH AND BANK BALANCES**			
	Cash at bank			
	Current accounts			
	Afghanis		**1,257,198,433**	653,235,854
	US dollar		**39,984,428**	1,075,624,131
			1,297,182,861	1,728,859,985
	Saving accounts			
	Afghanis		**508,222,414**	2,278,442,760
	US dollar		**2,432,588,246**	1,354,025,713
			2,940,810,660	3,632,468,473
	Cash in hand			
	Head office			
	Afghanis		**2,354,450**	842,475
	US dollar		**-**	-
			2,354,450	842,475
	Regions			
	Afghanis		**1,040,188**	1,224,712
			4,241,388,159	5,363,395,645
13	**DEFERRED GOVERNMENT GRANTS**			
	Opening balance		**2,071,350,380**	2,263,698,081
	Additions during the year		**-**	24,525,050
	Adjsutment - Realized Government Grant		**(627,852,550)**	-
	Amortization	25	**(221,330,531)**	(216,872,751)
	Closing balance	13.1	**1,222,167,299**	2,071,350,380

13.1 This represents grant from Afghanistan Telecommunication Regulatory Authority (ATRA) under Telecom Development Fund (a Government formed agency) as an assistance towards the development of telecommunication infrastructure in rural areas which comprises of telecom infrastructure projects for basic telecom access, transmission and Individual Voice Telephony services spread over the country.

		Note	2018 AFN	2017 AFN
14	**DEFERRED TAXATION**			
14.1	**Deferred tax asset arising from**			
	Provisions		**(296,483,883)**	(422,788,370)
14.2	**Deferred tax liability arising from**			
	Property and equipment		**564,124,567**	304,295,828
	Intangible assets		**75,233,218**	241,897,152
			639,357,785	546,192,980
	Closing balance		**342,873,902**	123,404,610
14.3	**Movement during the year**			
	Opening balance		**123,404,609**	67,129,472
	Property and equipment		**259,828,740**	(46,388,158)
	Intangible assets		**(166,663,934)**	(49,099,882)
	Provisions		**126,304,487**	151,763,177
			219,469,293	56,275,137
	Closing balance		**342,873,902**	123,404,609
15	**TRADE AND OTHER PAYABLES**			
	Creditors - capital expenditure		**481,862,431**	529,270,625
	leased line charges		**535,217,670**	802,176,919
	others		**979,988,440**	1,073,356,268
	Interconnect payables	15.1	**1,039,702,362**	1,161,607,620
			3,036,770,903	3,566,411,432
15.1	International - Interconnect		**384,240,735**	624,423,111
	Domestic - Interconnect		**655,461,627**	537,184,509
			1,039,702,362	1,161,607,620
16	**ACCRUED AND OTHER LIABILITIES**			
	ATRA & MCIT charges		**164,143,564**	176,541,646
	Salaries payable		**299,582,367**	258,108,160
	Accrued expenses		**23,329,912**	36,589,384
			487,055,843	471,239,190
17	**TAXES AND DUTIES PAYABLE**			
	Withholding taxes		**13,652,409**	40,672,108
	Income tax payable		**213,908,901**	-
	Business receipt tax		**336,131,076**	268,455,599
			563,692,386	309,127,707

18 This represents security deposits of vendors.

19 This represents advance received against sale of scratch cards.

20 **CONTINGENCIES AND COMMITMENTS**

20.1 **Contingencies**

There are no contingencies as at the statement of financial position date.

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20.2 Commitments

The Company has signed certain contracts with telecom vendors; ZTE, Huawei, Tamas telecom, Sun sky, Insta telecom for expansion and up gradation of its telecommunication network throughout Afghanistan.

	Note	2018 AFN	2017 AFN
Commitments in respect of capital expenditure		**4,901,663,927**	5,053,261,780
Not later than one year		**2,891,981,717**	2,981,424,450
Later than one year		**2,009,682,210**	2,071,837,330
		4,901,663,927	5,053,261,780

21 REVENUE

	Note	2018 AFN	2017 AFN
Fixed line services		**190,917,308**	208,405,261
Optical fiber cable		**4,173,189,886**	4,188,033,936
GSM services		**4,351,910,089**	3,763,585,516
Internet services		**957,702,521**	849,644,461
Sales of equipment		**11,523,306**	17,115,527
Interconnection services		**79,752,204**	104,169,389
Co-location services		**115,242,768**	119,591,740
		9,880,238,082	9,250,545,830

22 COST OF SERVICES

	Note	2018 AFN	2017 AFN
Depreciation	6.1.1	**1,412,987,804**	1,489,580,075
Amortization	7.1	**134,033,928**	133,833,000
Leased line charges		**2,112,867,661**	2,109,705,362
Utilities		**807,706,380**	682,072,277
ATRA Levies & MCIT charges		**173,717,918**	288,595,064
Interconnect cost		**672,335,387**	848,494,375
Scratch cards, sim cards and hand sets	8.1	**74,611,658**	78,894,395
Repair and maintenance	22.1	**390,905,516**	355,026,357
		5,779,166,252	5,986,200,905

22.1 This represents certain optical fiber cable and fixed line maintenance service charges in respect of contracts made by the Company with vendors; ZTE and Huawei.

23 SELLING, MARKETING AND ADMINISTRATIVE EXPENSES

	Note	2018 AFN	2017 AFN
Salaries, allowances and other benefits		**905,054,784**	824,060,695
Depreciation	6.1.1	**69,628,061**	69,737,176
Amortization	7.1	**6,098,277**	6,077,645
Provision for doubtful debts	9.2	**75,045,061**	111,207,961
Provision against slow moving stock		**39,215,404**	-
Utilities		**3,671,228**	52,423,510
Rent expenses		**2,328,291**	2,450,833
Advertising		**54,569,516**	6,820,301
Travelling expenses		**51,309,986**	50,138,188
Office supplies		**11,976,858**	11,429,500
Commission allowed		**364,258,174**	367,239,888
Transportation charges		**3,530,438**	2,027,383
Repairs and maintenance		**14,054,685**	27,660,768
Printing and stationery		**5,217,853**	2,854,759
Auditor's remuneration		**9,839,000**	4,268,350
Legal and professionals		**2,823,495**	3,721,366
Other expenses		**4,638,163**	11,915,830
		1,623,259,274	1,554,034,153

		Note	2018 AFN	2017 AFN
24	**BUSINESS RECEIPTS TAX**			
	In respect of current year			
	Voice and data services (10%)		**595,226,370**	518,151,339
	Optical fiber cable (10%)		**418,803,394**	418,803,394
	Sale of items (4%)		**460,932**	4,641,351
			1,014,490,696	941,596,084
25	**OTHER INCOME**			
	Amortization of deferred grants	13	**221,330,531**	216,872,751
	Foreign exchange gain/(Loss)		**(10,818,603)**	(20,928,492)
	Interest income on bank account		**135,791,433**	84,666,991
			346,303,361	280,611,250
26	**TAXATION**			
	Current:			
	For the year		**213,908,901**	-
	Deferred:			
	For the year	14.3	**219,469,292**	56,275,137
	Deferred tax		**433,378,193**	56,275,137

27 RELATED PARTY TRANSACTIONS

Related parties of the Company comprise of the parent company, entities under common control or influence, entities with common directors and key management personnel. Balance with related parties are disclosed in respective notes to the financial statements.

Afghan Telecom being the wholly owned and controlled by Ministry of Communication and Information Technology of Government of Afghanistan, the other government departments and agencies are not necessarily the related parties of Afghan Telecom under paragraph 11 of IAS 24 Related Parties Disclosures.

27.1 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

The aggregate amount charged in these financial statements for the year as remuneration and benefits to the Chief Executive Officer, Chiefs of Operations and Directors of the Company are as follows:

	Chief executive officer	Chiefs of operations	Directors	Total
1397:	---------- AFN	----------	----------	----------
Short term benefits	**5,015,945**	**23,872,121**	**19,969,853**	**48,857,919**
	5,015,945	**23,872,121**	**19,969,853**	**48,857,919**
Number of persons	**1**	**10**	**12**	**23**
1396:				
Short term benefits	4,559,950	21,701,928	18,154,412	44,416,290
	4,559,950	21,701,928	18,154,412	44,416,290
Number of person	1	10	12	23

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28 FINANCIAL RISK MANAGEMENT

The Company does not issue financial instruments presently to finance its operations. Other financial instruments such as trade receivable and creditors arise directly from Company's operations.
Foreign currency risk arises when financial instruments are receivable or payable in foreign currency.
The Company is primarily exposed to credit risk and foreign exchange risk as a component of market risk and liquidity risk as explained below.

28.1 Credit risk

28.1.1 Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises mainly from accounts receivables from customers.

28.1.2 In managing credit risk, the Company reviews the aging of the accounts receivable and reviews other positions.

28.1.3 The maximum exposure to credit risk at the reporting date is as follows:

	Note	2018	2017
		AFN	AFN
Deposits		135,313,469	66136821
Bank balance		4,237,993,521	5,361,328,458
Grant Receivable		48,155,413	946715752
Trade and other receivables	9	4,093,670,136	3,997,436,791
		8,515,132,539	10,371,617,822

28.1.4 Carrying values of the financial assets as disclosed in statement of financial position reflect the maximum exposure to credit risk before collateral held or other credit enhancements.

28.1.5 Concentration of risks of financial assets with credit risk exposure:

(a) Geographic sectors

Trade and other receivables mainly comprise receivables from customers located in Afghanistan.

(b) Industry sectors

The following table breaks down the Company's main credit exposure of financial assets at their carrying amounts, as categorized by the industry sectors of counterparties.

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Credit risk exposures relating to assets are as follows:

	Corporate	Individual	Other	Total
		AFN		
Trade and other receivables	**2,309,137,067**	**17,599,865**	**1,766,933,204**	**4,093,670,136**
Cash and bank balances	**4,241,388,159**	**-**	**-**	**4,241,388,159**
Advances, deposits and prepayments	**-**	**1,684,565**	**135,313,469**	**136,998,034**
As at 30 Qaws 1397	**6,550,525,226**	**19,284,430**	**1,902,246,673**	**8,472,056,329**
Trade and other receivables	2,491,149,374	12,667,117	1,493,620,300	3,997,436,791
Cash and bank balances	5,363,395,645	-	-	5,363,395,645
Advances, deposits and prepayments	-	319,749	66,136,821	66,456,570
As at 30 Qaws 1396	7,854,545,019	12,986,866	1,559,757,121	9,427,289,006

The Company's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate values of transactions concluded are spread amongst approved financial institutions. The Company actively seeks to limit the amount of credit exposure to any one financial institution and credit exposure is controlled by counterparty limits that are reviewed and approved by the credit risk department.

Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

28.2 Market risk

a) Foreign Currency risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company is exposed to foreign exchange risk on its foreign currency bank and other balances.

	2018	2017
	AFN	AFN
US Dollar		
Trade and other payables	**1,521,564,793**	1,690,878,245
Trade and other receivables	**1,620,857,716**	1,275,624,106
Balances with bank	**2,472,572,674**	2,429,649,844
Cash in hand	**-**	-
	5,614,995,183	5,396,152,195

b) Interest rate risk

rate risk exists.

28.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages its liquidity risk by maintaining adequate cash reserves, monitoring cash flow requirements with cash flow budgeting and continued financial support from the Ministry of Communication and Information Technology. The table below summarizes Company's financial liabilities:

	Interest / mark-up bearing			Non - interest bearing	Total
	Over one month up to one	Over one year up to five years	Over five years	Over one month up to one year	
	---------- AFN ----------				
Trade and other payables	**-**	**-**	**-**	**3,036,770,903**	**3,036,770,903**
Unearned revenue				**2,427,369,357**	**2,427,369,357**
Accrued and other liabilities	**-**	**-**	**-**	**487,055,843**	**487,055,843**
Security deposits				**5,957,162**	**5,957,162**
As at 30 Qaws 1397	**-**	**-**	**-**	**5,957,153,265**	**5,957,153,265**
Trade and other payable	-	-	-	3,566,411,432	3,566,411,432
Unearned revenue				2,190,598,314	2,190,598,314
Accrued and other liabilities	-	-	-	471,239,190	471,239,190
Security deposits	-	-	-	11,096,694	11,096,694
As at 30 Qaws 1396	-	-	-	6,239,345,630	6,239,345,630

28.4 Capital management policies

The Company's objectives when managing capital is to ensure the Company's ability to continue as a going concern and to maintain a capital base to support the sustained development of its business. The Company does not have any policy to acquire short-term or long term loan. The share capital of the company belongs to all the assets and liabilities transferred by Ministry of Communication and Information Technology (MCIT) at the time of its incorporation, as increased by subsequent contributions.

The Company had significant accumulated losses as at end of the year 1396 amountinng to Afghanis 1,238,133,149 and aooumulated profit in current year 1397 amounting to Afghanis 138,113,879. Since the Company is wholly owned by Ministry of Communication and Information Technology Government of Islamic Republic of Afghanistan, management does not foresee any conditions which would cause significant doubt on the Company's ability to continue as going concern. The management of the Company has strong on-going support form MCIT. Capital signifies equity as shown in the statement of financial position.

	2018	2017
	AFN	AFN
Share capital	**11,760,607,959**	11,760,607,959
Accumulated losses	**138,113,879**	(1,238,133,149)
	11,898,721,838	10,522,474,810

29 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Board of Directors of the Company, in their meeting held on 04/01/2024.

30 GENERAL

Figures in these financial statements have been rounded off to the nearest Afghanis.

CFO / CEO (ACTING)

ACCOUNTS & FINANCE DIRECTOR