

**Azfen B.M. Joint Venture**

**Financial statements**

*Year ended 31 December 2019  
with independent auditor's report*

**Contents****Independent auditor's report****Financial statements**

Statement of financial position.....	1
Statement of profit or loss and other comprehensive income .....	2
Statement of changes in equity .....	3
Statement of cash flows .....	4

**Notes to the financial statements**

1. The Joint Venture and its operations .....	5
2. Basis of preparation and significant accounting policies.....	5
3. Change in accounting policies and disclosures .....	18
4. Significant accounting judgements, estimates and assumptions .....	22
5. Cash and cash equivalents and restricted cash .....	24
6. Trade receivables and contract assets .....	24
7. Balances and transactions with related parties .....	25
8. Inventories .....	26
9. Other receivables and other current assets.....	27
10. Trade payables .....	27
11. Other payables and expense accruals.....	27
12. Property, plant and equipment.....	28
13. Intangible assets .....	28
14. Income tax .....	29
15. Equity .....	30
16. Revenue from contracts with customers .....	31
17. Contract costs .....	32
18. Administrative expenses .....	33
19. Other losses.....	33
20. Commitments and contingencies.....	33
21. Financial risk management.....	34
22. Events after the reporting period.....	37



**Ernst & Young Holdings (CIS) B.V.**  
Port Baku Towers Business Centre  
South Tower, 9<sup>th</sup> Floor  
153, Neftçilar avenue  
Baku, AZ1010, Azerbaijan  
Tel: +994 (12) 490 7020  
Fax: +994 (12) 490 7017  
www.ey.com/az

**Ernst & Yanq Holdings (SiAyEs) Bi.Vi.**  
Port Baku Towers Biznes Mərkəzi  
Cənub Qülləsi, 9-cu mərtəbə  
153 Neftçilər prospekti  
Bakı, AZ1010, Azərbaycan  
Tel: +994 (12) 490 7020  
Faks: +994 (12) 490 7017

## Independent auditor's report

To the Board of Directors of  
Azfen B.M. Joint Venture

### **Opinion**

We have audited the financial statements of Azfen B.M. ("Joint Venture"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects 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 Joint Venture as at 31 December 2019, financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for qualified opinion**

We were unable to obtain sufficient appropriate audit evidence in respect of certain assumptions used by management in the assessment of net realizable value of the slow-moving inventories with the carrying amount of AZN 7,955,893 as at 31 December 2019. Consequently, we were unable to determine whether any adjustments to "Inventories" as at 31 December 2019 and loss for 2019 were necessary.

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 Joint Venture in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (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 qualified opinion.

### **Responsibilities of management and the Board of Directors 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 misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Joint Venture's financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 Joint Venture'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 Joint Venture'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 Joint Venture 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 the Board of Directors 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.

*Ernst & Young Holdings (CIS) B.V.*

21 July 2020

Baku, Azerbaijan

**Statement of financial position****as at 31 December 2019***(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

	Notes	31 December 2019	31 December 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	42,580,653	26,864,742
Restricted cash	5	1,771,412	1,269,165
Trade receivables	6, 16	41,951,210	40,098,791
Contract assets	6, 16	40,028,397	44,616,250
Work in progress		-	2,195,272
Inventories	8	30,036,130	26,947,479
Income tax prepayment	14	-	17,966,741
Other receivables and other current assets	9	8,667,124	8,110,675
<b>Total current assets</b>		<b>165,034,926</b>	<b>168,069,115</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	16,718,625	19,267,661
Intangible assets	13	2,615,173	984,102
Deferred tax assets	14	6,399,754	-
<b>Total non-current assets</b>		<b>25,733,552</b>	<b>20,251,763</b>
<b>Total assets</b>		<b>190,768,478</b>	<b>188,320,878</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade payables	10	23,330,011	29,051,542
Contract liabilities	16	32,643,117	-
Other payables and expense accruals	11	32,149,836	29,421,411
<b>Total current liabilities</b>		<b>88,122,964</b>	<b>58,472,953</b>
Deferred tax liabilities	14	-	1,627,198
<b>Total non-current liabilities</b>		<b>-</b>	<b>1,627,198</b>
<b>Equity</b>			
Charter fund	15	276,885	276,885
Retained earnings		102,368,629	127,943,842
<b>Total equity</b>		<b>102,645,514</b>	<b>128,220,727</b>
<b>Total liabilities and equity</b>		<b>190,768,478</b>	<b>188,320,878</b>

**Signed and authorised for release on behalf of Management:**

Hamid Hasanov,  
General Manager

21 July 2020


Ali Ozcan,  
Deputy General Manager on Finance

21 July 2020

*The accompanying notes are an integral part of these financial statements.*

**Statement of profit or loss and other comprehensive income****for the year ended 31 December 2019***(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenue from contract with customers	16	200,797,247	512,387,767
Contract costs	17	(186,760,779)	(394,259,519)
<b>Gross profit</b>		<b>14,036,468</b>	<b>118,128,248</b>
Administrative expenses	18	(6,763,580)	(5,702,016)
Foreign exchange (loss)/gain, net		(608,858)	338,334
Finance income		-	503,241
Other losses	19	(3,047,712)	(640,272)
Other operating income		943,803	1,253,048
<b>Profit before tax</b>		<b>4,560,121</b>	<b>113,880,583</b>
Income tax expense	14	(8,135,334)	(12,260,933)
<b>(Loss)/profit for the year</b>		<b>(3,575,213)</b>	<b>101,619,650</b>
Other comprehensive income		-	-
<b>Total comprehensive (loss)/income</b>		<b>(3,575,213)</b>	<b>101,619,650</b>

*The accompanying notes are an integral part of these financial statements.*

**Statement of changes in equity**  
**for the year ended 31 December 2019**

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

	Notes	Charter fund	Retained earnings	Total
<b>At 1 January 2018</b>		<b>276,885</b>	<b>141,546,416</b>	<b>141,823,301</b>
Profit for the year		-	101,619,650	<b>101,619,650</b>
<b>Total comprehensive income</b>		-	<b>101,619,650</b>	<b>101,619,650</b>
Dividends declared	15	-	(115,222,224)	<b>(115,222,224)</b>
<b>At 31 December 2018</b>		<b>276,885</b>	<b>127,943,842</b>	<b>128,220,727</b>
Loss for the year		-	(3,575,213)	<b>(3,575,213)</b>
<b>Total comprehensive income</b>		-	<b>(3,575,213)</b>	<b>(3,575,213)</b>
Dividends declared	15	-	(22,000,000)	<b>(22,000,000)</b>
<b>At 31 December 2019</b>		<b>276,885</b>	<b>102,368,629</b>	<b>102,645,514</b>

*The accompanying notes are an integral part of these financial statements.*

**Statement of cash flows****for the year ended 31 December 2019***(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
<b>Cash flow from operating activities</b>			
Profit before taxes		4,560,121	113,880,583
<i>Adjustments to reconcile profit before tax to net cash flows</i>			
Depreciation of property, plant and equipment	12	9,674,408	10,437,394
Amortization of intangible	13	501,287	97,605
Loss on disposal of property, plant and equipment	12	287,067	321,676
Loss on disposal of intangible assets	13	344,167	44,180
Movement in liability for unused vacation		1,078,781	(4,709,606)
Write off of prepayment balance		278,571	-
Finance income		-	(503,241)
Accrual of tax sanction	14	2,000,276	-
Movement in ECL		50,946	274,416
Other		23,249	-
<i>Working capital adjustments</i>			
(Increase)/decrease in restricted cash		(502,247)	24,051
(Increase)/decrease in trade receivables		(1,750,419)	71,870,822
Increase in inventories		(3,088,651)	(135,530)
Decrease/(increase) in work in progress		2,195,272	(2,195,272)
Decrease/(increase) in contract assets		4,572,538	(44,661,235)
Decrease in receivables from ongoing construction contracts		-	10,598,634
(Increase)/decrease in other receivables and other current assets		(835,020)	6,966,194
Increase/(decrease) in contract liabilities		32,643,117	(26,356,341)
Decrease in trade payables		(5,721,531)	(43,788,760)
Increase/(decrease) in other payables and expenses accruals		10,563,908	(10,696,637)
<b>Cash generated from operations</b>		<b>56,875,840</b>	<b>81,468,933</b>
Income taxes paid		-	(15,001,250)
<b>Net cash provided by operating activities</b>		<b>56,875,840</b>	<b>66,467,683</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	12	(7,412,439)	(4,461,833)
Purchase of intangible assets	13	(2,476,525)	(714,332)
Interest received		-	503,241
<b>Net cash used in investing activities</b>		<b>(9,888,964)</b>	<b>(4,672,924)</b>
<b>Cash flow from financing activities</b>			
Dividends paid	15	(31,133,334)	(102,629,631)
<b>Net cash used in financing activities</b>		<b>(31,133,334)</b>	<b>(102,629,631)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>15,853,542</b>	<b>(40,834,872)</b>
Movement in ECL for cash and cash equivalents	5	(137,631)	(62,322)
Cash and cash equivalents at the beginning of the year		26,864,742	67,761,936
<b>Cash and cash equivalents at the end of the year</b>	5	<b>42,580,653</b>	<b>26,864,742</b>

*The accompanying notes are an integral part of these financial statements.*



*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **1. The Joint Venture and its operations**

Azfen B.M. ("the Joint Venture") was established as a Joint Venture under the laws of the Republic of Azerbaijan on 11 January 1996 between the State Oil Company of the Azerbaijan Republic ("SOCAR") and Tekfen İnşaat ve Tesisat A.Ş. ("Tekfen") with 60% and 40% shareholding interest, respectively. The Joint Venture was formed with primary purpose of performing construction, engineering and related services in Azerbaijan, specifically related to oil interests owned by oil and gas companies such as SOCAR and Azerbaijan International Operating Company ("AIOC").

The Joint Venture is located in Baku and had an average of 2,711 employees during the year (2018: 3,613).

The Joint Venture's registered legal address is 31 Istiglaliyat Street, Baku AZ1001, the Republic of Azerbaijan.

### **Ongoing projects**

#### *Technip Italy S.p.A. – ("AZF-095")*

The Joint Venture has ongoing contracts with Technip Italy S.p.A. for subcontract works in Ethylene plant of Azerikimya Production Unit. The project is planned to be finalized during 2020. Approximately 86% of the project was completed till the end of 2019.

#### *BP (Exploration) Caspian Sea Limited – ("AZF-097")*

The project is associated with the provision of fabrication, construction, instruments control and electrical repair services in Azerbaijan Republic.

#### *Tecnicas Reunidas S.A. – ("AZF-099")*

The Joint Venture signed agreements with Tecnicas Reunidas S.A for Modernization & Reconstruction of Oil Refinery, named after Heydar Aliyev. Approximately 26% of the project was completed till the end of 2019.

#### *Azerbaijan International Operating Company ("AZF-100")*

The Joint Venture signed agreement with AIOC related to fabrication of topsides and drilling facilities for Azeri Central East (ACE) oil platform. The work related to the contract is planned to be finalized by 1 April 2022. Approximately 8% of the project was completed till the end of 2019.

## **2. Basis of preparation and significant accounting policies**

### **2.1 Basis of preparation**

The financial statements of the Joint Venture presented herein have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under historical cost basis and are presented in Azerbaijani Manat ("AZN"), unless otherwise indicated.

The financial statements provide comparative information in respect of the previous period.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies**

#### **a) Current versus non-current classification**

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Joint Venture classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### **b) Revenue from contract with customers**

The Joint Venture is in the business of providing construction, engineering and related services to the customers. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Joint Venture expects to be entitled in exchange for transferring those goods or services. Revenue is reduced for estimated or realized customer returns, discounts, commissions' rebates, and taxes related to sales.

#### **Construction contracts**

Revenues from construction contracts are recognized either at the point of time or over time basis depending on terms of the contracts with customers.

In contracts where third parties undertake the management, control and coordination of the construction activities are referred to as service contracts and they are only recognized as revenues when control of the goods or services is transferred to third parties.

#### *Contract revenue*

In the long-term construction contracts, the Joint Venture recognises revenue from construction services over time because the Joint Venture's performance does not create an asset with an alternative use to the Joint Venture and the entity has an enforceable right to payment for performance completed to date. When the revenue associated construction contract can be estimated reliably, contract revenue is recognized by reference to the percentage of completion of the contract activity at the reporting date. Joint Venture uses an input method for measuring percentage of the completion because there is a direct relationship between the Joint Venture's effort (i.e., based on the labour hours expended, machine hours used or other resources consumed) and the transfer of construction services to the customers. Under an input method, The Joint Venture recognizes revenue based on proportion of the contract costs incurred for services performed as of reporting date to the estimated total contract costs necessary to complete the services.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

This calculation does not apply if the stage of completion cannot be measured reliably. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable.

Changes in construction contract, additional receivable claims and incentive payments are included in the project revenue in accordance with the consent of the employer.

The Joint Venture's management does not recognize the additional receivables under compensation outside the scope of the contract that may be subject to litigation as income, unless negotiations have reached to an advanced stage such that it is probable that the customer will accept the claim and the amount of the additional receivable can be measured reliably.

#### *Significant financing component*

For some transactions, the receipt of the consideration does not match the timing of the transfer of goods or services to the customer. The Joint Venture receives advance payments from customers according to the construction contracts, i.e. the Joint Venture effectively receives financing from the customers, for which services are performed within one year or less after receipt of payment. Accordingly, the Joint Venture applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

The Joint Venture disaggregates contract revenues from contracts with customers by revenue lines, geographical area and timing of transfer of goods or services (e.g. revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time).

#### *Contract costs*

All incurred costs associated with construction contracts with customers ranging from materials, service, direct and indirect labour, maintenance, depreciation expenses to meals, insurance, business trip, bank and other expenses are classified as contract costs. Contract costs are recognized as expenses in the period in which they are incurred.

General and administrative expenses are associated with day-to-day and administrative activities of the Joint Venture's Head office and are recognized when they are incurred. The Joint Venture disaggregates both contract costs and general and administrative expenses by nature.

Provision for cost of estimated loss of incomplete contracts is recognized immediately in the year, which such loss is forecasted.

### **Contract balances**

#### *Contract assets*

If the Joint Venture performs by transferring construction services to customer before the customer pays consideration or before payment is due, i.e. when revenue recognized under contracts with customers exceeds progress billings (unbilled receivables), the Joint Venture presents the contract as a contract asset, excluding any amounts presented as a receivable. Contract asset is a Joint Venture's conditional right to consideration in exchange for construction services that the Joint Venture has transferred to the customers and is reclassified to trade receivables when rights to consideration become unconditional, i.e. services are accepted by the customer and accordingly invoiced to the customer. Contract assets are subject to impairment assessment.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

#### *Trade receivables*

Trade receivables are recognised initially at the amount of consideration (transaction price) due from the customer that is unconditional (i.e., only the passage of time is required before payment of the consideration is due) and subsequently measured at amortized cost less provision for ECL. Trade receivables are subject to impairment assessment.

#### *Contract liabilities*

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Joint Venture transfers the related construction services to the customer. The Joint Venture records contract liabilities for all contracts with customers when progress billings exceed recognised revenue under POC method. Contract liabilities are recognised as revenue when Joint Venture performs under the contract (i.e., transfers control of the related goods or services to the customer).

#### *Net contract assets and contract liabilities*

The majority of contracts with customers contain both contract asset and contract liability positions. At the end of reporting period, these positions are netted on a contract basis and presented as either a contract asset or a contract liability in the statement of financial position depending on the relationship between the entity's performance and the customer's payment".

#### *Costs to obtain contract*

Assets are recognized for the incremental costs of obtaining a contract with a customer (if recoverable) and costs incurred to fulfil a contract when they directly relate to the contract, are expected to be recoverable and generate or enhance resources used in satisfying performance obligations. The Joint Venture applies the optional practical expedient to immediately expense costs to obtain a contract if the amortisation period of the asset that would have been recognised is one year or less.

### **c) Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, being valued on an average cost (AVCO) method. Net realizable value represents the estimated selling price in the ordinary course of business less all estimated cost of completion and costs necessary to make a sale.

Assessment of net realisable value of inventories is performed in each reporting period and the amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs.

For construction projects, the materials have been produced especially for the projects are included in the project costs when they are delivered to contract sites and installed as of reporting period.

### **d) Property, plant and equipment**

The initial cost of an asset purchased comprises its purchase price, transportation costs, custom duties, installation costs and any other costs directly attributable to bringing the asset into construction site and condition necessary for it to be capable of operating in the manner intended by management. Cost of assets also includes the initial estimate of cost of restoring restoring site and removing item, if any, and borrowing costs for qualifying assets, (if any), if recognition criteria is met. Subsequently, property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## 2. Basis of preparation and significant accounting policies (continued)

### 2.2 Summary of significant accounting policies (continued)

Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired. Additionally, significant renovation and overhaul expenses over property, plant and equipment items arising at subsequent dates are capitalized and included in each asset's value. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

At each reporting period, the Joint Venture assesses whether there is an indication that property, plant and equipment items may impaired

#### *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Assets under construction (if any) are not depreciated. Land is not depreciated and carried at cost less accumulated impairment. Depreciation of property, plant and equipment items begin when they are put into use.

The estimated useful lives of the Joint Venture's property, plant and equipment are as follows:

Machinery and equipment	4 to 25 years
Buildings	5 to 50 years
Motor vehicles	3 to 13 years
Furniture and fittings	4 to 10 years

The residual value of an asset is the estimated amount that the Joint Venture would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Joint Venture expects to use the asset until the end of its physical life unless scrap value is significant.

The expected useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

#### e) Intangible assets

##### *Intangible assets acquired separately*

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets primarily include computer software licences and rights which are capitalized on the basis of the all costs incurred to acquire the specific software licences and rights. Computer software licences which are the intangibles assets with finite lives ranging from 1 to 10 years, are amortised on a straight-line basis over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired as described below in section *Impairment of non-financial assets*. The amortisation expense on intangible assets with finite lives is recognized in the statement of profit or loss.

The estimated useful life and amortization method for an intangible asset with a finite useful life are reviewed at the end of each annual reporting period, with the effect of any changes being treated as change in estimate and accounted for on a prospective basis.

Intangible assets with indefinite useful lives (if any) are not amortised, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

#### *Derecognition of intangible assets*

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from disposal of an intangible asset, measured as the difference between the net disposal proceeds from disposal and the carrying amount of the asset, are recognized in the profit or loss when the asset is derecognized.

#### **f) Impairment of tangible and Intangible assets**

At each reporting date, management assesses whether there are any indicators based on events or circumstances that indicate the carrying value of tangible and intangible assets may not be recoverable. Such indicators include changes in the Joint Venture's business plans, changes in material prices leading to unprofitable performances, changes in types of services and etc. Intangible assets with indefinite useful life (if any) and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Joint Venture estimates the recoverable amount of the cash-generating (CGU) unit to which the asset belongs.

If the recoverable amount of asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss except for assets (if any) previously revalued with the revaluation taken to OCI. For such assets, the impairment is recognised in OCI up to the amount of any previous revaluation.

In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate based on a DCF model that reflects current markets assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The Joint Venture bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Joint Venture's CGUs to which the individual assets are allocated.

The fair value less costs of disposal calculation is based on available data from sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset.

When impairment loss subsequently reverses, the carrying amount of the assets (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **g) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (if any), which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized and added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs (if any) are recognized in the statement of profit and loss in the period in which they are incurred.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

#### **h) Foreign currency transactions**

All amounts in these financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise stated.

The functional currency of the Joint Venture and the presentation currency for the financial statements is AZN.

Transactions executed in currencies other than AZN (foreign currencies) are initially recorded by applying the appropriate rates of exchanges prevailing on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the re-measurement are recognized in profit or loss.

Non-monetary items carried at a fair value (if any) that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost using the exchange prevailing at the dates of the initial transactions are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise as described above except for:

- ▶ Exchange differences on foreign currency borrowings relating to assets under construction in progress for future productive use, which are capitalized and included in the cost of those assets to the extent that they are regarded as an adjustment to interest costs on these foreign currency borrowings;
- ▶ Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur which form part of the net investment in a foreign operation and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

At 31 December 2019, the principal rates of exchange used for translating balances denominated in foreign currencies were USD 1 = AZN 1.7000 and EUR 1 = AZN 1.9035, (2018: USD 1 = AZN 1.7000 and EUR 1 = AZN 1.9468).

#### **i) Financial instruments – initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### **Financial assets**

###### ***Initial recognition and measurement***

Depending on their classification at initial recognition, financial instruments are subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Joint Venture's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which practical expedient is applied, the Joint Venture initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which practical expedient is applied are measured at the transaction price determined under IFRS 15.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Joint Venture's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Overall, the Joint Venture has not designated any financial assets upon initial recognition as at fair value through other comprehensive income (OCI), and fair value through profit or loss.

#### ***Subsequent measurement***

##### *Financial assets at amortised cost (debt instruments)*

The Joint Venture measured financial assets at amortised cost as both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subjected to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Joint Venture's financial assets at amortised cost includes current and deposit accounts as well as restricted accounts at several local and international banks and trade receivables from third parties.

#### ***Derecognition***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Joint Venture's statement of financial position) when:

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The Joint Venture has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Joint Venture has transferred substantially all the risks and rewards of the asset, or (b) the Joint Venture has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Joint Venture has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Joint Venture continues to recognise the transferred asset to the extent of the Joint Venture's continuing involvement. In that case, the Joint Venture also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Joint Venture has retained.



(Amounts presented are in Azerbaijani Manats unless otherwise stated)

## 2. Basis of preparation and significant accounting policies (continued)

### 2.2 Summary of significant accounting policies (continued)

#### **Impairment of financial assets**

The Joint Venture developed a methodology in accordance with the requirements of IFRS 9, which describes the rules for impairment and calculation of provision for impairment of financial instruments.

In accordance with the requirements of IFRS 9, the Joint Venture applies the model of expected credit losses for the purposes of provisioning financial instruments, the key principle of which is the timely reflection of the deterioration or improvement of the credit quality of financial instruments taking into account current and forecast information. The amount of expected credit losses recognized as a provision for impairment depends on the degree of change in the credit quality of the financial instrument from the date of its initial recognition.

The expected credit losses for financial instruments are estimated using one of the below approaches:

- ▶ Simplified approach – is applied to:
  - ▶ Receivables from government;
  - ▶ Receivables from corporates;
- ▶ General approach – is applied to all financial instruments subject to provisioning in accordance with IFRS 9 and for which approach for credit adjusted and Simplified approach are not applied;
- ▶ Credit adjusted approach – is applied to financial instruments that are credit impaired at initial recognition.

#### **General approach estimation of expected credit losses**

In accordance with the general approach, at the recognition date all financial instruments are treated as Stage 1, then, depending on the degree of increase in credit risk from the initial recognition date for subsequent reporting dates, the Joint Venture assigns financial instruments to one of the following stages:

- ▶ Stage 1 – financial instruments without significant increase in credit risk and without signs of impairment, for which the expected credit losses are calculated within 1 year.
- ▶ Stage 2 – financial instruments with significant increase in credit risk, but with no signs of impairment, for which expected credit losses are calculated over the lifetime of the financial instrument (impairment sign is 30+ overdue days).
- ▶ Stage 3 – financial instruments that shows signs of impairment, for which expected credit losses are calculated over the lifetime of the financial instrument (impairment sign is 90+ overdue days or when internal or external information indicates that the Joint Venture is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Joint Venture).

#### **Simplified approach**

Under this approach the Joint Venture does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

At every reporting date, the Joint Venture evaluates whether there is any change in credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Joint Venture reassesses the internal credit rating of the instrument.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Joint Venture. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

#### **Financial liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss (FVTPL) and payables, loans and borrowings as other financial liabilities where appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings, and payables, net of directly attributable transaction costs.

The Joint Venture's financial liabilities include trade and other payables, loans and borrowings.

#### ***Subsequent measurement***

For purposes of subsequent measurement, financial liabilities are classified in two categories as described below:

- ▶ Financial liabilities at FVTPL;
- ▶ Financial liabilities at amortised cost.

#### ***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL where either the financial liability is held for trading or it is designated upon initial recognition as at FVTPL. Financial liabilities at FVTPL are stated at a fair value with any gains or losses arising on remeasurement recognized in profit or loss. The Joint Venture has not designated any financial liability at fair value through profit or loss.

#### ***Financial liabilities at amortised cost***

This is the category most relevant to the Joint Venture. After initial recognition, interest-bearing loans and borrowings and payables are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The effective interest method is method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount of financial liability on initial recognition. The EIR amortisation is included as finance costs in the statement of profit or loss.

#### ***Derecognition of financial liabilities***

A financial liability of the Joint Venture is derecognised 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

#### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

#### **j) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at banks (demand deposits).

#### **k) Restricted cash**

Restricted cash is presented separately from cash and cash equivalents for the purposes of cash flow statement and represent cash available on VAT deposit account.

#### **l) Trade payables**

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### **m) Cash dividend**

The Joint Venture recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Joint Venture. A corresponding amount is recognised directly in equity.

#### **n) Transactions with related parties**

Related parties are disclosed in accordance with IAS 24 *Related Party Disclosures*.

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

#### **o) Taxes**

Azerbaijani tax system consists of two alternative taxation regimes: the statutory tax regime governed by the Tax Code, and the tax regime established by the existing Production Sharing Agreements (PSAs).

In addition the Host Government Agreement on SCP (South Caucasus Pipeline) signed by the Government of the Republic of Azerbaijan and MEP (Main Export Pipeline) Participants (SOCAR, BP, TotalFinaElf, LUKAgip, NICO, Statoil and TPOC) provide different taxation rules.

Types of taxes existing in the Republic of Azerbaijan include profit tax, value added tax, assets tax, and payroll taxes (personal income tax and mandatory state social insurance contributions), among others. As Azerbaijani law and practice are relatively new with little existing precedent, it is necessary to understand that laws and their interpretation may rapidly change, thus creating uncertainties and areas of conflict.

Tax declarations together with other regulatory compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of different authorities, who are enabled by law to impose fines, penalties, and interest charges. These facts may reveal tax risks in the Republic of Azerbaijan.

The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

#### **Value-added tax**

The tax authorities permit the settlement of sales and purchases value-added tax ("VAT") on a net basis.

##### *VAT payable*

VAT payable balance represents VAT related to sales that is payable to tax authorities upon recognition of sales to customers, net of VAT on purchases which have been settled at the reporting date. VAT related to sales is payable to tax authorities either upon receipt of payment, if payment is received prior to or within 30 days from the date of sale, or at recognition of sales to customers, if payment is received after 30 days from the date of sale. VAT related to sales which have not been settled at the statement of financial position date is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

In accordance with provisions of ACG and Shah Deniz PSAs, the Joint Venture is charged with zero per cent VAT related to Hydrocarbon Activities or Oil-Gas operations on the territory of the Republic of the Azerbaijan under the respective PSAs according to a VAT exemption certifications issued by tax authorities and effective until 31 December 2019 and 6 August 2019, respectively.

##### *VAT recoverable*

VAT recoverable relates to VAT on purchases which have not been settled at the reporting date, and thus not claimed in tax declarations. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

#### **Corporate income tax**

The income tax charge comprises current tax and deferred tax and is recognized on the profit or loss unless it relates to items or transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity.

##### *Current income tax*

Current income tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Joint Venture operates and generates taxable income.

##### *Deferred income tax*

Deferred income tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- ▶ Where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **2. Basis of preparation and significant accounting policies (continued)**

### **2.2 Summary of significant accounting policies (continued)**

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- ▶ Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Tax Code of the Republic of Azerbaijan allows 5 year carry forward of tax losses.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets against deferred tax liabilities relate to income taxes levied by the same taxation authority on same taxable entity which intends either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### **Taxes other than corporate income tax**

Taxes, other than on income, are recorded within contract cost and administrative expenses.

#### **p) Employee benefits**

Wages, salaries, contributions to the Social Protection Fund of the Republic of Azerbaijan, paid annual leave and sick leave, bonuses, and non-monetary benefits (e.g. health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Joint Venture.

#### **q) Provisions for liabilities and charges**

Provisions comprise liabilities of uncertain timing or amount. Provisions are recognized when the Joint Venture has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the cash outflows expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks and uncertainties specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense (if any).

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

## 2. Basis of preparation and significant accounting policies (continued)

### 2.2 Summary of significant accounting policies (continued)

When some portion or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably and the expense relating to provision is presented in the statement of profit or loss net of any reimbursement.

#### r) Onerous contracts

If the Joint Venture has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Joint Venture recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Joint Venture cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

## 3. Change in accounting policies and disclosures

### a) New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective beginning on or after 1 January 2019:

The Joint Venture applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Joint Venture. The Joint Venture has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

#### *IFRS 16 Leases*

IFRS 16 supersedes IAS 17 *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 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessee will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments discounted at incremental borrowing rate that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows is also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments is split into a principal and an interest portion which is presented as financing and operating cash flows, respectively.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

### **3. Change in accounting policies and disclosures (continued)**

#### **a) New and amended standards and interpretations (continued)**

Lessor accounting under IFRS 16, is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 do not have an impact for leases where the Company is the lessor.

Lease incentives (e.g. rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses generally on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Joint Venture has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other losses' in profit or loss.

The application of this standard has had no effect on the Joint Venture's financial statements as the Joint Venture did not have any long-term material lease transactions in place.

#### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- ▶ Whether an entity considers uncertain tax treatments separately;
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- ▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- ▶ How an entity considers changes in facts and circumstances.

The Joint Venture determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. Upon adoption of the Interpretation, the Joint Venture considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Joint Venture's tax filings do not include deductions related to transfer pricing. The Interpretation did not have an impact on the financial statements of the Joint Venture.

#### *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendment had no impact on the financial statements of the Joint Venture.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

### **3. Change in accounting policies and disclosures (continued)**

#### **a) New and amended standards and interpretations (continued)**

##### *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendment had no impact on the financial statements of the Joint Venture as it did not have any plan amendments, curtailments, or settlements during the period.

##### *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendment did not have an impact on the financial statements of the Joint Venture as the Joint Venture has no long-term interests which form part of the net investment in a Joint Venture.

#### **Annual improvements 2015-2017 cycle**

##### *IFRS 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation to fair value.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendment did not have an impact on the financial statements of the Joint Venture as there was no transaction in the year where joint control was obtained.

##### *IFRS 11 Joint Arrangements*

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendment did not have an impact on the financial statements of the Joint Venture as there was no transaction in the year where joint control was obtained in relation of an arrangement the Joint Venture previously participated in.



*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

### **3. Change in accounting policies and disclosures (continued)**

#### **a) New and amended standards and interpretations (continued)**

##### *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Joint Venture's current practice is in line with these amendments, they had no impact on the financial statements of the Joint Venture.

##### *IAS 23 Borrowing Costs*

The amendments clarify that an entity treats, as part of general borrowings, any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which it first applies those amendments. The entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Joint Venture's current practice is in line with the amendments, they had no impact on the financial statements of the Joint Venture.

#### **b) Standards and amendments issued that are not yet effective and have not been early adopted by the Joint Venture**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Joint Venture's financial statements are disclosed below. The Joint Venture intends to adopt these standards, if applicable, when they become effective.

The following new and revised IFRSs are not mandatorily effective for the year ended 31 December 2019. However, they are available for early application. Paragraph 30 of IAS 8 requires entities to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective. The Joint Venture has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

- ▶ IFRS 17 *Insurance Contracts* (1 January 2021);
- ▶ Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date not decided);
- ▶ Amendments to IAS 1 and IAS 8: *Definition of Material* (effective date not decided);
- ▶ Amendments to IFRS 3: *Definition of Business* (effective date not decided).

The management expect that the adoption of the standards above will have no material impact on the financial statements in the period of initial application.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

#### **4. Significant accounting judgements, estimates and assumptions**

The preparation of the Joint Venture's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Joint Venture's accounting policies, management has made judgements, which have the most significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Joint Venture based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Joint Venture. Such changes are reflected in the assumptions when they occur.

##### **Revenue recognition**

###### *Percentage of completion*

The Joint Venture uses the percentage of completion ("POC") method for accounting its revenue under long-term construction contracts. Use of the percentage of completion method requires the Joint Venture to estimate the proportion of services performed to date as proportion of the total services to be performed and management's judgement that the use of costs to date in proportion to total estimated costs provides the most appropriate measure of percentage of completion.

###### *Construction cost estimates*

The Joint Venture calculates "the remaining costs necessary to complete construction projects" through its internally developed projections. Factors such as escalation in material prices, labour costs and other costs are included in the projections based on best estimate of management as of the reporting date. Any unanticipated escalation in the subsequent periods will require the reassessment of the remaining estimated costs.

Change in the percentage of completion due to revision in estimated contract costs, a change in an estimate of the transaction price or contract modification associated with construction projects is treated as change in estimation in accordance with IAS 8 and cumulative catch-up adjustment to revenue arising from these changes is prospectively recognized at the period at which such changes occur.

##### **Provision for estimated credit loss**

The Joint Venture uses a provision matrix to calculate ECLs for financial assets. The provision rates are based on credit rating of financial institutions. The provision matrix is initially based on the Joint Venture's historical observed default rates. The Joint Venture calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

#### **4. Significant accounting judgements, estimates and assumptions (continued)**

##### **Impairment of non-financial assets**

Management assesses whether there are any indicators of possible impairment of all non-financial assets each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Joint Venture's business plans, changes in material prices leading to unprofitable performances, changes in performer services and etc. Goodwill and intangible assets with indefinite useful life are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a Discounted Cash Flow (DCF) model. The cash flows are derived from the budgets for project to which assets belong.

##### **Deferred income tax asset recognition**

Significant management judgment is required determine and calculate the amount of deferred tax assets that can be recognized. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies.

Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction is recognised through profit or loss.

##### **Current income taxes**

Azerbaijani tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Joint Venture may not coincide with that of management. As a result, tax authorities may challenge transactions and the Joint Venture may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

As of 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate and any additional taxes and penalties arising from incompliance with tax, currency and customs regulations and interpretations are properly presented in the financial statements.

##### **Useful lives of property plant and equipment and intangible assets**

Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets with finite lives. This estimate is based on projected period over which the Joint Venture expects to consume economic benefits from the asset. Management increases the depreciation charge where useful lives are less than previously estimated lives. The useful lives are reviewed at least at each financial year-end. Changes in any of the above conditions or estimates may result in adjustments to future depreciation and amortization charges.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***5. Cash and cash equivalents and restricted cash**

Cash and cash equivalents comprise the following as at 31 December:

	<b>2019</b>	<b>2018</b>
Cash on hand	6,469	19,042
Cash at banks	42,774,137	26,908,022
Less – allowance for expected credit losses	(199,953)	(62,322)
<b>Total cash and cash equivalents</b>	<b>42,580,653</b>	<b>26,864,742</b>

Set out below is the movement in the provision for expected credit losses of cash and cash equivalents:

	<b>2019</b>	<b>2018</b>
<b>As at 1 January</b>	<b>(62,322)</b>	-
Change in provision for ECL	(137,631)	(62,322)
<b>As at 31 December</b>	<b>(199,953)</b>	<b>(62,322)</b>

Restricted cash comprises the following at 31 December:

	<b>2019</b>	<b>2018</b>
VAT deposit account	1,771,412	1,269,165
<b>Total restricted cash</b>	<b>1,771,412</b>	<b>1,269,165</b>

Effective 1 January 2008 the state tax authorities introduced VAT deposit accounts and enforced payments of input and output VAT via these accounts. In order to comply with this tax regulation, the Joint Venture has opened a VAT deposit account. In accordance with this regulation, the balance on VAT deposit account may only be withdrawn with a 45 days' notice to the tax authorities.

**6. Trade receivables and contract assets****Trade receivables**

Trade receivables comprise the following 31 December:

	<b>2019</b>	<b>2018</b>
Trade receivables from third parties	41,264,564	18,084,803
Trade receivables from related parties (see Note 7)	751,755	22,181,097
Less – allowance for expected credit losses	(65,109)	(167,109)
<b>Total trade receivables</b>	<b>41,951,210</b>	<b>40,098,791</b>

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

**Contract assets**

As at 31 December 2019, the Joint Venture has contract assets of AZN 40,028,397 (2018: AZN 44,616,250) which is net of a provision for expected credit losses of AZN 60,300 (2018: AZN 44,985).

Set out below is the movement in the provision for expected credit losses of trade receivables and contract assets:

	<b>2019</b>	<b>2018</b>
<b>As at 1 January</b>	<b>(212,094)</b>	-
Change in provision for ECL	86,685	(212,094)
<b>As at 31 December</b>	<b>(125,409)</b>	<b>(212,094)</b>

The significant changes in the contract asset and also contract liability balances during the period are disclosed in Note 16.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***7. Balances and transactions with related parties**

The nature of the related party relationships for those related parties with whom the Joint Venture entered into significant transactions or had significant balances outstanding are detailed below.

**Sales to related parties**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
Heydar Aliyev Oil Refinery	10,381,849	148,328,407
BOS Shelf International FZCO	352,496	-
Umid Babek Operating Company	181,544	-
<b>Total sales to related parties</b>	<b>10,915,889</b>	<b>148,328,407</b>

**Gross trade receivables due from related parties**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Heydar Aliyev Oil Refinery	473,068	22,181,097
Tekfen İnşaat ve Tesisat A.Ş.	278,687	-
<b>Total gross trade receivables from related parties (see Note 6)</b>	<b>751,755</b>	<b>22,181,097</b>

**Gross contract assets from related parties**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Heydar Aliyev Oil Refinery	-	1,583,575
BOS Shelf International FZCO	346,779	-
Umid Babek Operating Company	180,448	-
<b>Total gross contract assets from related parties</b>	<b>527,227</b>	<b>1,583,575</b>

**Advance payments to related parties**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Tekfen Mühendislik A.Ş.	268,421	-
Azneft Production Union	243,645	365,684
<b>Total advance payments to related parties</b>	<b>512,066</b>	<b>365,684</b>

**Purchases from related parties**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
SOCAR CAPE LLC	2,882,088	2,902,005
Tekfen İnşaat ve Tesisat A.Ş.	2,604,488	5,921,180
Tekfen Mühendislik A.Ş.	2,151,826	3,782,697
Azneft Production Unit ("Azneft PU")	1,172,308	1,878,285
SOCAR Petroleum Georgia	510,070	2,016,188
Oil and Gas Construction Trust	322,411	4,103,719
SOCAR IT and Communications Department	258,217	426,515
Cenub Tikinti Servis OJSC	100,507	367,785
Ateshgah Insurance OJSC	31,121	151,503
Caspian Innovation Center	26,180	-
Azerigas Production Unit ("Azerigas PU")	1,842	2,246
SOCAR Energy Georgia LLC	-	4,827
<b>Total purchases from related parties</b>	<b>10,061,058</b>	<b>21,556,950</b>

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***7. Balances and transactions with related parties (continued)****Balances due to related parties**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Tekfen Mühendislik A.Ş	1,816,371	365,108
SOCAR CAPE LLC	1,761,646	866,067
Tekfen İnşaat ve Tesisat A.Ş.	861,962	1,213,635
SOCAR IT and Communications Department	101,348	133,425
SOCAR Petroleum Georgia	51,344	33,859
Caspian innovation center	26,180	-
Cenub Tikinti Servis OJSC	4,216	5,217
Azerigas Production Unit ("Azerigas PU")	462	416
<b>Trade payables due to related parties (see Note 10)</b>	<b>4,623,529</b>	<b>2,617,727</b>
Heydar Aliyev Oil Refinery	-	3,964,330
<b>Total contract liabilities due to related parties</b>	<b>-</b>	<b>3,964,330</b>
Tekfen İnşaat ve Tesisat A.Ş.	-	12,592,593
<b>Dividends payable due to related parties</b>	<b>-</b>	<b>12,592,593</b>
<b>Total balances due to related parties</b>	<b>4,623,529</b>	<b>19,174,650</b>

Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided for any related party receivables or payables.

**Compensation of key management personnel of the Joint Venture**

Key management personnel of the Joint Venture consisted of three members as of 31 December 2019 and 2018 including General Manager, First Deputy General Manager and Deputy General Manager on Finance. Key management individuals are entitled to salaries and other benefits of the Joint Venture in accordance with the approved payroll matrix and performance results of the Joint Venture. The compensation of key management personnel during 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
Salaries and other short term benefits	2,140,103	2,135,002
<b>Total compensation of key management personnel</b>	<b>2,140,103</b>	<b>2,135,002</b>

**8. Inventories**

Inventories comprise the following at 31 December:

	<b>2019</b>	<b>2018</b>
Inventories at construction site (*)	30,036,130	26,947,479
<b>Total inventories</b>	<b>30,036,130</b>	<b>26,947,479</b>

(\*) Cost of materials that have been delivered on construction site or set aside for use on construction site but not yet installed as of 31 December 2019 are included in inventory.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***9. Other receivables and other current assets**

Other receivables and other current assets comprise the following at 31 December:

	<b>2019</b>	<b>2018</b>
Advances given	5,638,049	3,291,575
VAT recoverable	1,110,948	1,767,768
Taxes receivables	–	481,722
Other receivables	1,918,127	2,569,610
<b>Total other receivables and other current assets</b>	<b>8,667,124</b>	<b>8,110,675</b>

Advance payments as at 31 December 2019 and 31 December 2018 are primarily represented by prepayments made to suppliers for construction works, engineering services, purchase of materials for construction works and other related services performed for construction projects in which the Joint Venture participates either as a contractor or subcontractor.

**10. Trade payables**

Trade payables comprise the following at 31 December:

	<b>2019</b>	<b>2018</b>
Trade payables to third parties	18,706,482	26,433,815
Trade payables to related parties (see Note 7)	4,623,529	2,617,727
<b>Total trade payables</b>	<b>23,330,011</b>	<b>29,051,542</b>

Trade payables are non-interest bearing and are normally settled on 60-day terms.

**11. Other payables and expense accruals**

Other payables and expense accruals comprise the following at 31 December:

	<b>2019</b>	<b>2018</b>
Taxes payables	17,114,481	4,258,111
Payables to employees	10,507,157	8,321,664
Social security contributions	1,737,387	578,413
Dividends payable	–	12,592,593
Other	2,790,811	3,670,630
<b>Total other payables and expense accruals</b>	<b>32,149,836</b>	<b>29,421,411</b>

Payables to employees are represented by short-term employee benefits including payable of salaries, related payments of employees and accrual of compensations for unused vacation days in exchange for service rendered by employees.

Tax payables represent offset of taxes receivables, tax prepayments and taxes payables regarding all taxes to which the Joint Venture is subject except for corporate income tax. Under Azerbaijani tax legislation, taxpayers are eligible for offsetting their taxes payable with taxes receivable and tax prepayments and the Joint Venture selected this approach for its reporting purposes.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***12. Property, plant and equipment**

Property, plant and equipment comprise the following:

	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and fixture</b>	<b>Total</b>
<b>Cost value</b>					
<b>At 1 January 2018</b>	<b>3,124,851</b>	<b>60,998,620</b>	<b>12,423,288</b>	<b>4,605,322</b>	<b>81,152,081</b>
Additions	–	4,082,756	303,475	75,602	<b>4,461,833</b>
Disposals	–	(574,336)	(1,174,817)	(257,755)	<b>(2,006,908)</b>
Transfer between PPE categories	–	786,491	335,246	(1,121,737)	–
<b>At 31 December 2018</b>	<b>3,124,851</b>	<b>65,293,531</b>	<b>11,887,192</b>	<b>3,301,432</b>	<b>83,607,006</b>
Additions	763,045	5,626,234	949,804	73,356	<b>7,412,439</b>
Disposals	–	(1,152,723)	(141,759)	(285,168)	<b>(1,579,650)</b>
<b>At 31 December 2019</b>	<b>3,887,896</b>	<b>69,767,042</b>	<b>12,695,237</b>	<b>3,089,620</b>	<b>89,439,795</b>
<b>Accumulated depreciation</b>					
<b>At 1 January 2018</b>	<b>(2,568,841)</b>	<b>(42,061,546)</b>	<b>(8,738,690)</b>	<b>(2,218,106)</b>	<b>(55,587,183)</b>
Charge for the year	(122,594)	(5,757,380)	(3,458,217)	(1,099,203)	<b>(10,437,394)</b>
Disposals	–	413,503	1,115,190	156,539	<b>1,685,232</b>
Transfer between PPE categories	–	(370,670)	(235,619)	606,289	–
<b>At 31 December 2018</b>	<b>(2,691,435)</b>	<b>(47,776,093)</b>	<b>(11,317,336)</b>	<b>(2,554,481)</b>	<b>(64,339,345)</b>
Charge for the year	(128,037)	(8,702,037)	(470,051)	(374,283)	<b>(9,674,408)</b>
Disposals	–	921,251	141,759	229,573	<b>1,292,583</b>
<b>At 31 December 2019</b>	<b>(2,819,472)</b>	<b>(55,556,879)</b>	<b>(11,645,628)</b>	<b>(2,699,191)</b>	<b>(72,721,170)</b>
<b>At 31 December 2018</b>	<b>433,416</b>	<b>17,517,438</b>	<b>569,856</b>	<b>746,951</b>	<b>19,267,661</b>
<b>At 31 December 2019</b>	<b>1,068,424</b>	<b>14,210,163</b>	<b>1,049,609</b>	<b>390,429</b>	<b>16,718,625</b>

**13. Intangible assets**

Intangible assets comprise the following:

	<b>Rights and licences with definite useful life</b>
<b>Cost value</b>	
<b>Closing balance as of 1 January 2018</b>	<b>535,631</b>
Additions	714,332
Disposals	(60,879)
<b>Closing balance as of 31 December 2018</b>	<b>1,189,084</b>
Additions	2,476,525
Disposals	(450,078)
<b>Closing balance as of 31 December 2019</b>	<b>3,215,531</b>
<b>Accumulated amortization</b>	
<b>Closing balance as of 1 January 2018</b>	<b>(124,076)</b>
Charge for the year	(97,605)
Disposals	16,699
<b>Closing balance as of 31 December 2018</b>	<b>(204,982)</b>
Charge for the year	(501,287)
Disposals	105,911
<b>Closing balance as of 31 December 2019</b>	<b>(600,358)</b>
<b>Carrying value as of 31 December 2018</b>	<b>984,102</b>
<b>Carrying value as of 31 December 2019</b>	<b>2,615,173</b>



*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***13. Intangible assets (continued)**

The following useful lives are used in the calculation of amortization:

	<u>Useful life</u>
Rights and licences	1-10 years

**14. Income tax**

The Joint Venture is subject to Azerbaijani and Georgia corporate taxes in which it operates. Provision is made in the accompanying financial statements for the estimated charge based on the Joint Venture's results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses and deducting non-taxable income.

In the Republic of Azerbaijan, advance corporate income tax payments are made on a quarterly basis. The corporate income tax rate in 2019 is 20% (2018: 20%).

The major components of income tax expense for the year ended 31 December 2019 and 2018 are:

	<u>2019</u>	<u>2018</u>
<b>Current income tax</b>		
Current income tax expense	16,162,286	4,520,741
<b>Deferred tax</b>		
Relating to origination and reversal of temporary differences	(8,026,952)	7,740,192
<b>Income tax expense reported in the statement of profit or loss</b>	<b>8,135,334</b>	<b>12,260,933</b>

Total charge for the year can be reconciled to the accounting profit as follows:

Income tax is calculated on taxable income, which differs significantly from IFRS. The reconciliation between the expected and the actual taxation charge is provided below:

	<u>2019</u>	<u>2018</u>
<b>Profit before tax</b>	<b>4,560,121</b>	<b>113,880,583</b>
Statutory tax rate	20%	20%
<b>Theoretical tax charge at at the statutory tax rate</b>	<b>912,024</b>	<b>22,776,117</b>
Tax effects of of items which are not deductible or assessable for taxation purposes:		
- Adjustments in respect of current income tax of previous year	4,000,553	-
- Net of (income)/expense which is exempt from taxation	721,639	(13,295,640)
- Non-deductible expenses for tax purposes	2,123,274	2,287,157
Other	377,844	493,299
<b>Income tax expense reported in the statement of profit or loss and other comprehensive income</b>	<b>8,135,334</b>	<b>12,260,933</b>

Non-deductible expenses are mainly comprised of the social and employee-related expenses, as well as the expense for write off of balances, which are not expected to be deductible from taxable income in future.

Income and expenses, which are exempt from taxation, are related to projects that are based on export pipelines and other similar agreements. In accordance with Article 122.3 of Tax Code of Azerbaijan Republic, export pipelines and other similar agreements are not subject to taxation.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***14. Income tax (continued)**

Movement of current income tax prepayment balance for the years ended 31 December 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
<b>Opening balances at 1 January</b>	<b>17,966,741</b>	<b>7,486,232</b>
Current income tax expense	(16,162,286)	(4,520,741)
Tax penalty	(1,804,455)	–
Payment during the year	–	15,001,250
<b>Closing balance at 31 December</b>	<b>–</b>	<b>17,966,741</b>

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases based on the Joint Venture recognizes deferred tax assets and liabilities. The tax effect of the movements in these temporary differences which result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes is detailed below:

	<b>2019</b>	<b>2018</b>
<b>Tax effect of deductible/(taxable) temporary differences</b>		
Trade receivables	13,462	7,540,505
Depreciation/amortization differences of PPE and other intangible assets	1,738,655	1,315,705
Other receivables and current assets	(159,348)	(217,752)
Other payables and expense accruals	1,187,832	(1,474,108)
Contract assets and contract liabilities, net	3,561,709	(8,791,548)
Other	57,444	–
<b>Net deferred tax assets/(liabilities)</b>	<b>6,399,754</b>	<b>(1,627,198)</b>

Movement of deferred tax (liabilities)/assets for the years ended 31 December 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
<b>Opening balances at 1 January</b>	<b>(1,627,198)</b>	<b>6,112,994</b>
Deferred income tax (charge)/benefit	8,026,952	(7,740,192)
<b>Closing balance at 31 December</b>	<b>6,399,754</b>	<b>(1,627,198)</b>

**15. Equity**

The Joint Venture's original authorized chartered fund was USD 100,000 in 1996. Both SOCAR and Tekfen made additional chartered fund contributions in 1997, 1998, 1999.

As of December 2019 and 2018 the share capital held is as follows:

<b>Shareholders</b>	<b>%</b>	<b>31 December 2019</b>	<b>%</b>	<b>31 December 2018</b>
SOCAR	60%	165,497	60%	165,497
TEKFEN	40%	111,388	40%	111,388
<b>Nominal capital</b>	<b>100%</b>	<b>276,885</b>	<b>100%</b>	<b>276,885</b>

In 2019, the Joint Venture declared dividends in the total amount of AZN 22,000,000 (2018: AZN 115,222,224) and paid total dividend in the amount of AZN 31,133,334 (2018: AZN 92,366,668) to its shareholders.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***16. Revenue from contracts with customers****Disaggregated revenue information**

The disaggregation of the Joint Venture's revenue from contracts with customers is as follows:

<b>Segments</b>	<b>For the year ended 31 December 2019</b>	
	<b>Construction</b>	<b>Total</b>
<b>Type of goods or service</b>		
Construction	200,797,247	<b>200,797,247</b>
<b>Total revenue from contracts with customers</b>	<b>200,797,247</b>	<b>200,797,247</b>
<b>Geographical markets</b>		
Azerbaijan	183,775,530	<b>183,775,530</b>
Georgia	17,021,717	<b>17,021,717</b>
<b>Total revenue from contracts with customers</b>	<b>200,797,247</b>	<b>200,797,247</b>
<b>Timing of revenue recognition</b>		
Services transferred over time	192,578,600	<b>192,578,600</b>
Services transferred at a point in time	8,218,647	<b>8,218,647</b>
<b>Total revenue from contracts with customers</b>	<b>200,797,247</b>	<b>200,797,247</b>

<b>Segments</b>	<b>For the year ended 31 December 2018</b>	
	<b>Construction</b>	<b>Total</b>
<b>Type of goods or service</b>		
Construction	512,387,767	<b>512,387,767</b>
<b>Total revenue from contracts with customers</b>	<b>512,387,767</b>	<b>512,387,767</b>
<b>Geographical markets</b>		
Azerbaijan	421,320,465	<b>421,320,465</b>
Georgia	91,067,302	<b>91,067,302</b>
<b>Total revenue from contracts with customers</b>	<b>512,387,767</b>	<b>512,387,767</b>
<b>Timing of revenue recognition</b>		
Services transferred over time	481,804,861	<b>481,804,861</b>
Services transferred at a point in time	30,582,906	<b>30,582,906</b>
<b>Total revenue from contracts with customers</b>	<b>512,387,767</b>	<b>512,387,767</b>

The Joint Venture did not recognise revenue in the reporting period that was included in the contract liability balance at the beginning of the period or from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

**Contract balances**

	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
Trade receivables (Note 6)	41,951,210	40,098,791
Contract assets (Note 6)	40,028,397	44,616,250
Contract liabilities	(32,643,117)	-

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***16. Revenue from contracts with customers (continued)****Contract balances (continued)**

Contract liability positions are mainly related to projects in which either total progress billings exceeded revenue recognized using POC method or advance considerations were received or due from customers for which services were not performed as of reporting date.

Significant changes in contract assets and contract liabilities during the period are as follows:

	<b>2019</b>	
	<b>Contract assets</b>	<b>Contract liabilities</b>
<b>Balance at the beginning of the year</b>	<b>44,616,250</b>	-
Transferred to receivables from contract assets from the beginning of the period	(36,545,135)	-
Changes as a result of cumulative catch-up adjustments arising from changes in estimates	9,957,200	-
Revenues recognized during the year, to be invoiced excluding catch-up adjustments effect	22,000,082	-
Considerations received from customers for which works have not been performed	-	(5,130,308)
Considerations due from customers for which works have not been performed	-	(27,512,809)
<b>Total</b>	<b>40,028,397</b>	<b>(32,643,117)</b>

**17. Contract costs**

An analysis of the Joint Venture's contract costs for the year, is as follows:

	<b>2019</b>	<b>2018</b>
Payroll	(66,698,441)	(94,401,708)
Service expenses	(29,856,346)	(73,819,995)
Materials	(29,118,518)	(79,962,686)
Machine-mechanizm services	(15,014,803)	(55,605,998)
Depreciation and amortization	(10,042,345)	(10,350,748)
Transportation expenses	(8,014,454)	(14,525,579)
Meal expense	(6,409,885)	(9,713,445)
Technical services and repair expenses	(4,496,074)	(10,797,127)
Fuel expenses	(2,618,839)	(6,048,186)
Bank expenses	(2,229,864)	(4,342,073)
Insurance expenses	(1,878,460)	(3,587,977)
Testing expenses	(1,804,222)	(3,573,776)
Trash dumping	(1,286,406)	(3,054,531)
Engineering expenses	(1,249,976)	(3,686,649)
Customs	(1,144,329)	(1,488,118)
Rent	(842,654)	(3,803,610)
Medical expenses	(567,957)	(3,060,966)
Utilities expenses	(492,395)	(453,628)
Training expenses	(448,496)	(265,792)
Communication expenses	(441,259)	(679,689)
Business trip and travel expenses	(324,824)	(5,954,158)
Office expenses	(316,894)	(677,481)
Security expenses	(261,572)	(1,508,064)
Other	(1,201,766)	(2,897,535)
<b>Total contract costs</b>	<b>(186,760,779)</b>	<b>(394,259,519)</b>

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***18. Administrative expenses**

An analysis of the Joint Venture's administrative expenses for the year, is as follows:

	<b>2019</b>	<b>2018</b>
Employee benefit expenses	(5,398,720)	(4,934,311)
Depreciation and amortization	(141,621)	(75,693)
Office expenses	(138,212)	(99,158)
Travel expenses	(62,062)	(38,627)
Other administrative expenses	(1,022,965)	(554,227)
<b>Total administrative expenses</b>	<b>(6,763,580)</b>	<b>(5,702,016)</b>

**19. Other losses**

An analysis of the Joint Venture's other losses for the year, is as follows:

	<b>2019</b>	<b>2018</b>
Loss on PPE and intangible assets disposal	(631,234)	(365,856)
Fines and sanctions	(2,000,276)	-
Provision for ECL and write-off of assets	(416,202)	(274,416)
<b>Total other losses</b>	<b>(3,047,712)</b>	<b>(640,272)</b>

**20. Commitments and contingencies****Operating environment**

The Joint Venture's operations are conducted in the Republic of Azerbaijan. As an emerging market, at the present time the Republic of Azerbaijan is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

The Republic of Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijani economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government as well as crude oil prices and stability of Azerbaijani Manat.

The Azerbaijani economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani Manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On 6 December 2016 President of the Republic of Azerbaijan approved "Strategic road maps for the national economy and main economic sectors of Azerbaijan". The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

Furthermore, during 2019 the government continued tight monetary policy as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy is expected to continue in 2020 with the aim of maintaining macroeconomic stability.

The Joint Venture's management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Joint Venture's business in the foreseeable future.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **20. Commitments and contingencies (continued)**

### **Contractual obligations**

#### *Defects liability*

Based on the agreements signed with clients, the Joint Venture provides warranties for its contracting business activities; with these agreements, the Joint Venture warrants along the warranty periods for all the work performed. If any defects have been proved by clients, the Joint Venture has to perform remedial work and borne the related cost.

#### *Delay penalties*

Based on the agreements signed with clients if the Joint Venture fails to achieve predefined settlement dates for any portion of the work then it shall pay to its clients delay penalties for such default.

#### *Bank guarantess*

As of 31 December 2019 the Joint Venture has bank guarantees given in favour of third parties in the amount of USD 105 million, and AZN 18 million (AZN 196 million) (31 December 2018: USD 113 million, EUR 12 million, and AZN 47 million (AZN 264 million)).

#### *Other*

Financial and political environment in all of the foreign countries can affect the Joint Venture's operational and financial position in those countries. As of 31 December 2019 and 2018, management of the Joint Venture believes that there is no significant financial or political matter that will have an impact on the accompanying financial statements.

## **21. Financial risk management**

### **Financial instruments and fair values**

The carrying amounts of financial instruments that are not carried at fair value in the financial statements approximate their fair value.

In the ordinary course of business, the Joint Venture is exposed to credit, liquidity and market risks. Market risk arises from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on degree of price volatility, such fluctuations in market prices may create volatility in the Joint Venture's financial position. The Joint Venture's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Joint Venture's financial performance. To effectively manage the variety of exposures that may impact financial results, the Joint Venture's overriding strategy is to maintain a strong financial position. Although there are no structured formal management procedures, management of the Joint Venture identifies and evaluates financial risks with reference to the current market position.

The main risks arising from the Joint Venture's financial instruments are market risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of the following risks:

- ▶ Market risk – the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. The Joint Venture is only exposed to currency risk.
- ▶ Credit risk – the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.
- ▶ Liquidity risk – representing a maturity analysis for financial liabilities that shows the remaining contractual maturities and a description of how the Joint Venture manages the inherent liquidity risk.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***21. Financial risk management objectives and policies (continued)****Financial risk factors**

The Joint Venture's activities expose it to a variety of financial risk; market risk (including currency risk, fair value interest risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Joint Venture's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Joint Venture's financial performance.

**Foreign currency risk management**

The Joint Venture undertakes certain transactions denominated in foreign currencies. Hence, exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amount of the Joint Venture's foreign currency denominated monetary assets and monetary liabilities at the reporting date is disclosed below.

**Foreign currency sensitivity**

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign currency denominated assets (receivables) and liabilities (payables and other liabilities) give rise to foreign exchange exposure. The Joint Venture does not have any formal procedures on managing currency risk, however, management is quite well informed on the tendencies in the economy and has undertaken several steps to minimise its currency risks. The following table demonstrates AZN equivalent of financial instruments denominated in foreign currencies.

	31 December 2019			31 December 2018		
	AZN Equivalent of USD	AZN Equivalent of EUR	AZN Equivalent of GBP	AZN Equivalent of USD	AZN Equivalent of EUR	AZN Equivalent of GBP
Cash and banks	15,972,591	454,397	1,610,971	17,009,695	2,991,781	72,393
Trade receivables	22,704,303	14,367,969	3,394,480	16,186,363	-	-
Trade payables	(3,298,905)	(2,183,979)	(137,650)	(1,556,258)	(2,335,529)	(1,174,173)
<b>Net foreign currency position</b>	<b>35,377,989</b>	<b>12,638,387</b>	<b>4,867,801</b>	<b>31,639,800</b>	<b>656,252</b>	<b>(1,101,780)</b>

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar, Euro and GBP exchange rates, with all other variables held constant, of the Joint Venture's post-tax profit (due to changes in the fair value of monetary assets and liabilities represented by bank balances, trade receivables and trade payables). The Joint Venture's exposure to foreign currency changes for all other currencies is not material.

	Increase/ decrease USD	Effect on profit before tax AZN	Increase/ decrease EUR	Effect on profit before tax AZN	Increase/ decrease GBP	Effect on profit before tax AZN
2019	10%	3,537,799	8%	1,011,071	9%	438,102
	-6%	(2,122,679)	-8%	(1,011,071)	-9%	(438,102)
2018	14%	4,436,982	14%	91,875	14%	(154,249)
	-3%	(950,782)	-3%	(19,688)	-3%	33,053

**Credit risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Joint Venture is exposed to credit risk from its operating activities (primary trade receivables) and from its financing activities, including deposits with banks.

*(Amounts presented are in Azerbaijani Manats unless otherwise stated)***21. Financial risk management objectives and policies (continued)****Credit risk (continued)**

The Joint Venture evaluates the concentration of risk with respect to trade receivables and cash and cash equivalents (excluding cash on hand) as low, as it deals only with recognised, reputable parties. The Joint Venture's maximum exposure to credit risk is generally reflected as the book value of financial assets in the statement of financial position and is presented by class of assets as shown in the table below as at 31 December:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents excluding cash on hand (Note 5)	42,574,184	26,845,700
Restricted cash (Note 5)	1,771,412	1,269,165
Trade receivables (Note 6)	41,951,210	40,098,791
<b>Total maximum exposure to credit risk</b>	<b>86,296,806</b>	<b>68,213,656</b>

The Joint Venture places its cash in reputable financial institutions in the Azerbaijan Republic with good financial position and good debt service. The Joint Venture continually monitors the status of the banks where its accounts are maintained. In addition, the Joint Venture's all restricted cash balance is placed in Government treasury account.

Trade receivables consist primarily of balances with local and foreign customers, including related parties, for construction, engineering and related services performed.

Management of the Joint Venture believes that the Joint Venture is not exposed to high credit risk as the impairment provision has already been accrued in the accompanying financial statements for all debtors which are not expected to be recovered in a future.

**Liquidity risk management**

Liquidity risk is the risk that the Joint Venture will not be able to meet its financial obligations as they fall due. The Joint Venture's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Joint Venture's reputation. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Joint Venture's short, medium and long-term funding and liquidity management requirements. The Joint Venture manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Joint Venture's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Joint Venture can be required to pay. The tables includes both interest and principal cash flow.

<b>2019</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>Total</b>
Trade payables	23,251,149	–	<b>23,251,149</b>
Other payables	–	–	–
<b>2018</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>Total</b>
Trade payables	29,051,542	–	<b>29,051,542</b>
Other payables	12,592,593	–	<b>12,592,593</b>



*(Amounts presented are in Azerbaijani Manats unless otherwise stated)*

## **21. Financial risk management objectives and policies (continued)**

### **Capital risk management**

The primary objective of the Joint Venture's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions to support its business activities. The Joint Venture manages its capital and believes that it will be able to continue as a going concern while maximizing the return to stakeholders.

The Joint Venture's overall strategy remains unchanged from 2018.

## **22. Events after the reporting period**

### **New contract with Oil Refinery named after Heydar Aliyev**

On 6 February 2020, the Joint Venture entered a new contract with Oil Refinery named after Heydar Aliyev, a related party, as part of and in compliance with terms and conditions of Frame Agreement, entered between the parties on the dates of 19 April 2017, for site preparation and construction works within Heydar Aliyev Oil Refinery modernization and reconstruction project.

### **COVID-19 outbreak**

In light of the recent rapid development of the coronavirus (COVID-19) pandemic, many countries, including the Republic of Azerbaijan, introduced quarantine measures which had significant impact on the level and scale of business activity of market participants. It is expected that both the pandemic itself and measures to minimize its consequences can affect the operations of companies from various industries. The Joint Venture considers this pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be estimated reasonably certain at the current date.

There has been significant volatility in the stock, currency and commodity markets since March 2020, including declining oil prices. As a response to this development, in March 2020 the President of the Republic of Azerbaijan signed a decree for action plans to minimize the impact of the pandemic. In accordance with this decree, anti-crisis stimulus package of AZN 2.5 billion is being developed to support individuals and various businesses in the country. The Central Bank of the Republic of Azerbaijan continues its monetary policy to ensure stability of AZN exchange rates.

Currently, the Joint Venture's management is analyzing potential impact of changing micro and macro-economic conditions on the financial position and performance of the Joint Venture.