“Azfen” Joint Venture

Financial statements

Year ended 31 December 2021
with independent auditor’s report

Contents

Building a better
working world

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Independent auditor's report

To the Board of Directors of
"Azfen" Joint Venture

Opinion

We have audited the financial statements of "Azfen" Joint Venture ("the Company"), which comprise the statement of financial position as at 31 December 2021, 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,the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

29 June 2022

Baku, Azerbaijan

Statement of financial position

as at 31 December 2021

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

	Notes	31 December 2021	31 December 2020
Assets			
Current assets			
Cash and cash equivalents	5	224,290,753	46,207,943
Restricted cash	5	7,264,441	403,623
Trade receivables	6	35,996,052	53,157,043
Contract assets	6, 17	25,948,372	56,138,744
Inventories	8	36,722,334	36,812,410
Income tax prepayment	15	–	12,559,710
Right-of-use asset	14	–	1,351,265
Other receivables and other current assets	9	12,686,356	12,275,768
Total current assets		**342,908,308**	**218,906,506**
Non-current assets			
Property, plant and equipment	12	16,066,389	19,299,018
Intangible assets	13	1,321,220	2,240,033
Right-of-use asset	14	3,580,056	6,265,098
Deferred tax assets	15	31,365,087	11,242,676
Total non-current assets		**52,332,752**	**39,046,825**
Total assets		**395,241,060**	**257,953,331**
Liabilities and equity			
Current liabilities			
Trade payables	10	49,247,605	70,883,635
Contract liabilities	17	92,012,156	70,679,487
Current lease liability	14	2,761,862	7,010,140
Other payables	11	60,394,602	39,248,035
Income tax liabilities	15	31,211,545	–
Total current liabilities		**235,627,770**	**187,821,297**
Non-current liabilities			
Non-current lease liability	14	941,968	3,703,830
Total non-current liabilities		**941,968**	**3,703,830**
Equity			
Charter fund	16	276,885	276,885
Retained earnings		158,394,437	66,151,319
Total equity		**158,671,322**	**66,428,204**
Total liabilities and equity		**395,241,060**	**257,953,331**

Signed and authorised for release on behalf of Management:

"AZFEN" birgə müəssisəsi · AZFEN · "AZFEN" joint venture

Hamid Hasanov,
General Manager

29 June 2022

Ali Ozcan,
Deputy General Manager on Finance

29 June 2022

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 2021

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Revenue from contract with customers	17	710,349,218	376,937,700
Contract costs	18	(553,317,619)	(357,852,409)
Gross profit		**157,031,599**	**19,085,291**
Administrative expenses	19	(8,349,757)	(11,702,061)
Foreign exchange (loss)/gain, net		(1,855,839)	3,180,462
Finance expense	14	(212,348)	(313,011)
Other (loss)/gain, net	20	(2,726,963)	(12,780,166)
Other operating income		145,192	221,937
Profit/(loss) before tax		**144,031,884**	**(2,307,548)**
Income tax expense	15	(31,788,766)	(4,523,875)
Profit/(loss) for the year		**112,243,118**	**(6,831,423)**
Other comprehensive income		–	–
Total comprehensive income/(loss)		**112,243,118**	**(6,831,423)**

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

Statement of changes in equity

for the year ended 31 December 2021

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

	Notes	Charter fund	Retained earnings	Total
At 1 January 2020		**276,885**	**102,368,629**	**102,645,514**
Loss for the year		–	(6,831,423)	**(6,831,423)**
Total comprehensive (loss)/profit		**–**	**(6,831,423)**	**(6,831,423)**
Dividends declared	16	–	(29,385,887)	**(29,385,887)**
At 31 December 2020		**276,885**	**66,151,319**	**66,428,204**
Profit for the year		–	112,243,118	**112,243,118**
Total comprehensive (loss)/profit		**–**	**112,243,118**	**112,243,118**
Dividends declared	16	–	(20,000,000)	**(20,000,000)**
At 31 December 2021		**276,885**	**158,394,437**	**158,671,322**

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

Statement of cash flows

for the year ended 31 December 2021

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Cash flow from operating activities			
Profit/(loss) before taxes		144,031,884	(2,307,548)
Adjustments to reconcile profit before tax to net cash flows			
Depreciation of property, plant and equipment	12	6,289,306	8,003,927
Depreciation of right-of-use asset	14	4,036,307	3,422,096
Amortization of intangible assets	13	1,862,710	1,908,082
Write-down of inventory balance	8	1,535,447	12,107,712
Loss on disposal of property, plant and equipment	12	9,805	26,111
Loss on disposal of intangible assets	13	3,548	47,826
Movement in liability for unused vacation		7,665,319	4,771,588
Movement in provision for bank guarantee		(410,432)	–
Finance cost	14	212,348	313,011
Change in provision for expected credit loss	5, 6	1,588,595	598,518
Working capital adjustments			
(Increase)/decrease in restricted cash		(6,860,818)	1,367,789
Decrease/(increase) in trade receivables		17,160,991	(11,246,307)
Increase in inventories		(1,445,371)	(18,883,992)
Decrease/(increase) in contract assets		30,190,372	(16,608,609)
Increase in other receivables and other current assets		(410,588)	(3,608,644)
Increase in contract liabilities		21,332,669	38,036,370
(Decrease)/increase in trade payables		(21,636,030)	47,553,624
Increase/(decrease) in other payables and expenses accruals		11,891,680	(416,155)
Cash generated from operations		**217,047,742**	**65,085,399**
Interest paid on lease liabilities		(480,617)	(44,742)
Income taxes paid	15	(8,139,922)	(22,122,330)
Net cash provided by operating activities		**208,427,203**	**42,918,327**
Cash flow from investing activities			
Purchase of property, plant and equipment	12	(3,066,482)	(10,610,431)
Purchase of intangible assets	13	(947,445)	(1,580,768)
Net cash used in investing activities		**(4,013,927)**	**(12,191,199)**
Cash flow from financing activities			
Payment of lease liabilities	14	(6,741,871)	(592,758)
Dividends paid, net of taxes	16	(18,000,000)	(26,447,298)
Net cash used in financing activities		**(24,741,871)**	**(27,040,056)**
Net increase in cash and cash equivalents		**179,671,405**	**3,687,072**
Movement in ECL for cash and cash equivalents	5	(1,588,595)	(59,782)
Cash and cash equivalents at the beginning of the year		46,207,943	42,580,653
Cash and cash equivalents at the end of the year	5	**224,290,753**	**46,207,943**

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

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

1. The Company and its operations

“Azfen” Joint Venture (“The Company”) 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 Company 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”).

In 2014, the Company established the branch office in Georgia, for the purpose of performing construction services in Georgia.

The Company is located in Baku and had an average of 6,507 employees during the year (2020: 4,484).

The Company’s registered legal address is 31 Istiglaliyat Street, Baku AZ1001, the Republic of Azerbaijan.

Major ongoing projects

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.

Azerbaijan International Operating Company − “AZF-100”

The Company has ongoing agreement with AIOC related to fabrication of topsides and drilling facilities for Azeri Central East oil platform. The work related to the project is planned to be finalized by the middle of 2023.

Oil Refinery named after Heydar Aliyev (“AZF-103”)

The project is associated with site preparation and construction works and installation of Kwanghshin Compressor for Modernization & Reconstruction of Oil Refinery, named after Heydar Aliyev.

Tecnicas Reunidas S.A. AR branch of the Company − “AZF-104”

The Company has ongoing agreement with Tecnicas Reunidas S.A. AR branch of the Company for Modernization & Reconstruction of Oil Refinery, named after Heydar Aliyev. The work related to the project is planned to be finalized by the end of 2022.

BP Exploration (Caspian Sea) Limited – “AZF-105”

Contract for the East Azeri Power construction services and telecoms of the ACE brownfield modifications project signed between BP Exploration (Caspian Sea) Limited and Azfen J.V. on the 4th day of March 2021.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

The financial statements of the Company 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 accouting policies

a) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/ non-current classification. An asset as 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 Company 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 Company 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 Company 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 Company recognises revenue from construction services over time because the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date. When the revenue associated with construction contract can be estimated reliably, contract revenue is recognized by reference to the percentage of completion ("POC") of the contract activity at the reporting date. Company uses an input method for measuring percentage of the completion because there is a direct relationship between the Company'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 Company 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 accouting 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 Company'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 Company receives advance payments from customers according to the construction contracts, i.e. the Company effectively receives financing from the customers, for which services are performed within one year or less after receipt of payment. Accordingly, the Company 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 Company 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 admistrative activities of the Company's Head office and are recognized when they are incurred. The Company 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 Company 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 Company presents the contract as a contract asset, excluding any amounts presented as a receivable. Contract asset is a Company's conditional right to consideration in exchange for construction services that the Company 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 accouting 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 Company transfers the related construction services to the customer. The Company records contract liabilities for all contracts with customers when progress billings exceed recognised revenue under POC method. Contract liabilities are recognised as revenue when Company performs under the contract (i.e., transfers control of the related goods or services to the customer).

Net contract assets and contract liablities

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 Company 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 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 accouting 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 Company 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 begins when they are put into use.

The estimated useful lives of the Company’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 Company 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 Company expects to use the asset until the end of its physical life unless scrap value is significant.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

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 decribed below in section *Impairment of tangible and intangible 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.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

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

2.2 Summary of significant accouting policies (continued)

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.

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 Company'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 Company 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 CGUt) 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 Company bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Company'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 accouting 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 Company and the presentation currency for the financial statements is AZN.

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

Monetary assets and liabilities denominated in foreign currecies 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 descrived 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 not 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 2021, the principal rates of exchange used for translating balances denominated in foreign currencies balances were USD 1 = AZN 1.7000; EUR 1 = AZN 1.9265; GBP 1 = AZN 2.2925; GEL 1 = AZN 0.5489 and YTL 1 = AZN 0.1329 (2020: USD 1 = AZN 1.7000; EUR 1 = AZN 2.0890; GBP 1 = 2.3021 AZN; GEL 1 = AZN 0.5193 and YTL 1 = AZN 0.2305).

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 Company’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 Company 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 accouting 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company'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 Company 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

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at FVPL.

Financial assets at amortised cost (debt instruments)

The Company 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 Company'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 Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

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

2.2 Summary of significant accouting policies (continued)

When the Company 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 Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company 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 Company has retained.

Impairment of financial assets

The Company 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 Company 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 Company 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 Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company).

Simplified approach

Under this approach the Company 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 Company 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 Company reassesses the internal credit rating of the instrument.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

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

2.2 Summary of significant accouting policies (continued)

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 Company. 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.

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 Company's financial liabilities include trade and other payables and lease liabilities.

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 Company 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 Company. 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 Company 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.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

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

2.2 Summary of significant accouting policies (continued)

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.

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

m) Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. 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, withholding tax, property 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.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

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

2.2 Summary of significant accouting policies (continued)

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.

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 represents VAT related to sales net of VAT on purchases which have been settled at the reporting date. Following the updates in Tax Code of Azerbaijan Republic, starting from 1 January 2020, VAT related to sales is payable to tax authorities upon receipt of payment. Where ECL has been recognized for impairment of receivables, impairment charge is recorded for the gross amount of the receivable, including VAT where applicable. The related VAT payable is maintained until the receivable is written off for tax purposes.

In accordance with provisions of ACG and Shah Deniz PSAs, the Company 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 3 January 2023 and 31 December 2022 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 Company 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 Companys, 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 accouting 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 Companys, 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 Company.

q) Provisions for liabilities and charges

Provisions comprise liabilities of uncertain timing or amount. Provisions are recognized when the Company 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 accouting 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 Company 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 Company 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 Company 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).

s) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Company recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short term leases and leases of low-value assets recognition exemption for its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

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

2.2 Summary of significant accouting policies (continued)

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

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 2021:

Several other amendments and interpretations apply for the first time in 2021, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

Interest Rate Benchmark Reform − Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- ► A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- ► Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- ► Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions* − amendment to IFRS 16 *Leases*.

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

These amendments had no impact on the financial statements of the Company.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

3. Change in accounting policies and disclosures (continued)

b) Standards and amendments issued that are not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The standart is not expected to have a material impact on the Company.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

These amendments are not expected to have impact on the financial statements of the Compan

Reference to the Conceptual Framework − Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations − Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

3. Change in accounting policies and disclosures (continued)

b) Standards and amendments issued that are not yet effective (continued)

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

These amendments are not expected to have impact on the financial statements of the Company.

Property, Plant and Equipment: Proceeds before Intended Use − Amendments to IAS 16

In May 2020, the IASB issued *Property, Plant and Equipment − Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

Onerous Contracts − Costs of Fulfilling a Contract − Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 1 First-time Adoption of International Financial Reporting Standards − Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. These amendments have no impact on the financial statements of the Company.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

3. Change in accounting policies and disclosures (continued)

b) Standards and amendments issued that are not yet effective (continued)

IFRS 9 Financial Instruments − fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. However, the amendments are not expected to have a material impact on the Company.

IAS 41 Agriculture − Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 *Agriculture*. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The standard is not applicable to the Company.

Definition of Accounting Estimates − Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company.

Disclosure of Accounting Policies − Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The amendments are not expected to have a material impact on the Company.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

4. Significant accounting judgements, estimates and assumptions

The preparation of the Company’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 Company’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 Company 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 Company. Such changes are reflected in the assumptions when they occur.

Revenue recognition

Percentage of completion

The Company 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 Company 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 Company 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 expected credit loss

The Company 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 Company’s historical observed default rates. The Company 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.

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 Company’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.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

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

Impairment of non-financial assets (continued)

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.

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 Company 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.

5. Cash and cash equivalents and restricted cash

Cash and cash equivalents comprise the following ast 31 December:

	2021	2020
Cash at banks	226,139,083	46,467,678
Less − allowance for expected credit losses	(1,848,330)	(259,735)
Total cash and cash equivalents	**224,290,753**	**46,207,943**

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

	2021	2020
As at 1 January	**(259,735)**	**(199,953)**
Change in provision for ECL	(1,588,595)	(59,782)
As at 31 December	**(1,848,330)**	**(259,735)**

Restricted cash comprises the following at 31 December:

	2021	2020
VAT deposit account	7,264,441	403,623
Total restricted cash	**7,264,441**	**403,623**

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 Company 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.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

6. Trade receivables and contract assets

Trade receivables

Trade receivables comprise the following 31 December:

	2021	2020
Trade receivables from third parties	35,833,282	53,141,173
Trade receivables from related parties (see Note 7)	268,353	121,453
Less − allowance for expected credit losses	(105,583)	(105,583)
Total trade receivables	**35,996,052**	**53,157,043**

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

Contract assets

As at 31 December 2021, the Company has contract assets of AZN 25,948,372 (2020: 56,138,744 AZN) which is net of a provision for expected credit losses of AZN 206,066 (2020: AZN 206,066).

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

	2021	2020
As at 1 January	**(311,649)**	**(125,409)**
Change in provision for ECL	−	(538,736)
Write-off	−	352,496
As at 31 December	**(311,649)**	**(311,649)**

7. Balances and transactions with related parties

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

Sales to related parties

	Year ended 31 December 2021	Year ended 31 December 2020
Heydar Aliyev Oil Refinery	1,942,453	3,354,298
Umid Babek Operating Company	−	2,090,593
Total sales to related parties	**1,942,453**	**5,444,891**

Gross trade receivables from related parties

	31 December 2021	31 December 2020
Heydar Aliyev Oil Refinery	268,353	121,453
Total gross trade receivables from related parties	**268,353**	**121,453**

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

7. Balances and transactions with related parties (continued)

Gross contract assets from related parties

	31 December 2021	31 December 2020
Heydar Aliyev Oil Refinery	157,209	–
Total gross contract assets from related parties	**157,209**	**–**

Advance payments to related parties

	31 December 2021	31 December 2020
Azneft Production Union	528,769	329,597
Tekfen Mühendislik A.Ş.	–	79,199
Total advance payments to related parties	**528,769**	**408,796**

Right-of-use asset from related parties

	31 December 2021	31 December 2020
Cenub Tikinti Servis OJSC	3,580,056	6,265,098
Total right-of-use asset from related parties	**3,580,056**	**6,265,098**

Lease liability to related parties

	31 December 2021	31 December 2020
Cenub Tikinti Servis OJSC	3,703,830	8,681,871
Total lease liability to related parties	**3,703,830**	**8,681,871**

Interest expense on lease libility to related parties

	31 December 2021	31 December 2020
Cenub Tikinti Servis OJSC	177,909	268,269
Total interest expense on lease libility to related parties	**177,909**	**268,269**

Purchases from related parties

	Year ended 31 December 2021	Year ended 31 December 2020
Tekfen İnşaat ve Tesisat A.Ş.	32,926,400	24,068,715
SOCAR CAPE LLC	25,840,840	12,559,874
Tekfen Mühendislik A.Ş.	5,045,159	6,537,924
Azneft Production Unit ("Azneft PU")	3,229,239	1,526,028
SOCAR Petroleum Georgia	324,978	68,852
Cenub Tikinti Servis OJSC	212,112	243,011
Caspian Innovation Center	121,848	139,995
SOCAR IT and Communications Department	52,437	61,537
Azerigas Production Unit ("Azerigas PU")	2,273	1,226
SOCAR STP LLC	3,125	1,269
Total purchases from related parties	**67,758,411**	**45,208,431**

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

7. Balances and transactions with related parties (continued)

Contract liabilities to related parties

	31 December 2021	31 December 2020
Heydar Aliyev Oil Refinery	731,961	–
Total contract liabilities to related parties	**731,961**	**–**

Balances due to related parties

	31 December 2021	31 December 2020
Tekfen İnşaat ve Tesisat A.Ş.	5,698,932	22,786,075
SOCAR CAPE LLC	4,620,276	4,579,397
Tekfen Mühendislik A.Ş	921,394	806,872
SOCAR Petroleum Georgia	110,959	110,962
Caspian innovation center	26,180	61,455
SOCAR IT and Communications Department	6,380	11,084
Cenub Tikinti Servis OJSC	2,108	2,108
Azerigas Production Unit (“Azerigas PU”)	563	303
SOCAR STP LLC	–	1,498
Trade payables due to related parties	**11,386,792**	**28,359,754**

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 Company

Key management personnel of the Company consisted of three members as of 31 December 2021 and 2020 including General Manager, First Deputy General Manager and Deputy General Manager in Finance. Key management individuals are entitled to salaries and other benefits of the Company in accordance with the approved payroll matrix and performance results of the Company. The compensation of key management personnel during 2021 and 2020 were as follows:

	2021	2020
Salaries and other short term benefits	2,189,384	2,376,869
Total compensation of key management personnel	**2,189,384**	**2,376,869**

8. Inventories

Inventories comprise the following at 31 December:

	31 December 2021	31 December 2020
Inventories at construction site (*)	35,460,102	36,812,410
Work in progress	1,262,232	–
Total inventories	**36,722,334**	**36,812,410**

(*) 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 2021 are included in inventory.

During 2021, loss in the amount of AZN 1,535,447 (2020: 12,107,712) was recognized as expense to write-down inventories to net realizable value. This is recognized in other (loss)/gain, net (see Note 20).

(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:

	2021	2020
Advances given	10,626,629	8,577,088
VAT recoverable	1,960,897	3,487,274
Other receivables	98,830	211,406
Total other receivables and other current assets	**12,686,356**	**12,275,768**

Advance payments as at 31 December 2021 and 31 December 2020 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 Company participates either as a contractor or subcontractor.

During 2021, VAT portion of advances received in the amount of AZN 4,963,473 (2020: AZN 11,605,232) was offset with other payables and expense accruals.

10. Trade payables

Trade payables comprise the following at 31 December:

	2021	2020
Trade payables to third parties	37,860,813	42,523,881
Trade payables to related parties (see Note 7)	11,386,792	28,359,754
Total trade payables	**49,247,605**	**70,883,635**

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

11. Other payables

Other payables comprise the following at 31 December:

	2021	2020
Payables to employees	27,352,836	18,310,768
Other tax payables	24,600,683	13,207,658
Social security contributions	3,888,663	2,695,669
Other	4,552,420	5,033,940
Total other payables	**60,394,602**	**39,248,035**

Payables to employees are represented by short-term employee benefits including payable of salaries, related payments of employees and accrual of compentations 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 Company 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 Company 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:

	Buildings	Machinery and equipment	Motor vehicles	Furniture and fixtures	Total
Cost value					
At 1 January 2020	**3,887,896**	**69,767,042**	**12,695,237**	**3,089,620**	**89,439,795**
Additions	834,815	9,205,934	177,150	392,532	**10,610,431**
Disposals	–	(756,575)	(42,992)	(187,578)	**(987,145)**
At 31 December 2020	**4,722,711**	**78,216,401**	**12,829,395**	**3,294,574**	**99,063,081**
Additions	–	2,465,011	186,434	415,037	**3,066,482**
Disposals	–	(418,202)	(1,437,447)	(105,089)	**(1,960,738)**
At 31 December 2021	**4,722,711**	**80,263,210**	**11,578,382**	**3,604,522**	**100,168,825**
Accumulated depreciation					
At 1 January 2020	**(2,819,472)**	**(55,556,879)**	**(11,645,628)**	**(2,699,191)**	**(72,721,170)**
Charge for the year	(170,551)	(7,213,616)	(374,892)	(244,868)	**(8,003,927)**
Disposals	–	741,187	42,992	176,855	**961,034**
At 31 December 2020	**(2,990,023)**	**(62,029,308)**	**(11,977,528)**	**(2,767,204)**	**(79,764,063)**
Charge for the year	(161,802)	(5,532,348)	(375,436)	(219,720)	**(6,289,306)**
Disposals	–	412,156	1,437,447	101,330	**1,950,933**
At 31 December 2021	**(3,151,825)**	**(67,149,500)**	**(10,915,517)**	**(2,885,594)**	**(84,102,436)**
At 31 December 2020	**1,732,688**	**16,187,093**	**851,867**	**527,370**	**19,299,018**
At 31 December 2021	**1,570,886**	**13,113,710**	**662,865**	**718,928**	**16,066,389**

13. Intangible assets

Intangible assets comprise the following:

	Rights and licences with definite useful life
Cost value	
Closing balance as of 1 January 2020	**3,215,531**
Additions	1,580,768
Disposals	(120,674)
Closing balance as of 31 December 2020	**4,675,625**
Additions	947,445
Disposals	(1,404,342)
Closing balance as of 31 December 2021	**4,218,728**
Accumulated amortization	
Closing balance as of 1 January 2020	**(600,358)**
Charge for the year	(1,908,082)
Disposals	72,848
Closing balance as of 31 December 2020	**(2,435,592)**
Charge for the year	(1,862,710)
Disposals	1,400,794
Closing balance as of 31 December 2021	**(2,897,508)**
Carrying value as of 31 December 2020	**2,240,033**
Carrying value as of 31 December 2021	**1,321,220**

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

13. Intangible assets (continued)

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

	Useful life
Rights and licences	1-10 years

14. Leases

Set out below, are the carrying amounts of the Company`s right-of-use assets and the movements during the period:

	Land and buildings	Total
At 1 January 2020	**–**	**–**
Additions	11,038,459	**11,038,459**
Depreciation expense	(3,422,096)	**(3,422,096)**
At 31 December 2020	**7,616,363**	**7,616,363**
Additions	–	**–**
Depreciation expense	(4,036,307)	**(4,036,307)**
At 31 December 2021	**3,580,056**	**3,580,056**

Set out below, are the carrying amounts of the Company's lease liabilities and the movements during the period:

	2021	2020
At 1 January	**10,713,970**	**–**
Additions	–	11,038,459
Interest accrued	212,348	313,011
Payments	(7,222,488)	(637,500)
At 31 December	**3,703,830**	**10,713,970**
Current	**2,761,862**	**7,010,140**
Non-current	**941,968**	**3,703,830**

The following are the amounts recognised in profit or loss:

	2021	2020
Depreciation of right-of-use assets (Note 18)	(4,036,307)	(3,422,096)
Interest expense	(212,348)	(313,011)
Total amount recognised in profit or loss	**(4,248,655)**	**(3,735,107)**

15. Income tax

The Company is subject to Azerbaijani and Georgia corporate taxes in which it carries out its operations. Provision is made in the accompanying financial statements for the estimated charge based on the Company'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 2021 is 20% (2020: 20%).

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

15. Income tax (continued)

The major components of income tax expense for the year ended 31 December 2021 and 2020 are:

	2021	2020
Current income tax		
Current income tax expense	49,262,015	9,366,797
Adjustments in respect of current income tax of previous year	2,649,162	–
Deferred tax		
Relating to origination and reversal of temporary differences	(20,122,411)	(4,842,922)
Income tax expense reported in the statement of profit or loss	**31,788,766**	**4,523,875**

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:

	2021	2020
Profit/(loss) before tax	**144,031,884**	**(2,307,548)**
Statutory tax rate	20%	20%
Theoretical tax charge/(benefit) at at the statutory tax rate	**28,806,377**	**(461,510)**
Tax effects of of items which are not deductible or assessable for taxation purposes		
Income and expenses which are exempt from taxation	(144,784)	156,001
Non-deductible expenses for tax purposes	3,561,563	5,287,835
Other	(434,390)	(458,451)
Income tax expense reported in the statement of profit or loss and other comprehensive income	**31,788,766**	**4,523,875**

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.

Movement of current income tax payable and prepayment balance for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Opening balances at 1 January	**12,559,710**	**(195,823)**
Current income tax expense	(49,262,015)	(9,366,797)
Adjustments in respect of current income tax of previous year	(2,649,162)	–
Payment during the year	8,139,922	22,122,330
Closing balance at 31 December	**(31,211,545)**	**12,559,710**

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

15. Income tax (continued)

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 Company 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:

	2021	**2020**
Tax effect of deductible/(taxable) temporary differences		
Trade receivables	21,117	21,117
Depreciation/amortization differences of PPE and other intangible assets	1,858,936	1,869,099
Other receivables and current assets	(95,461)	18,550
Other payables and expense accruals	3,619,435	2,092,308
Contract assets and contract liabilities, net	24,904,668	7,164,884
Right of use asset	(716,011)	(1,523,273)
Lease liability	740,766	2,142,794
Inventory	661,971	–
Other	369,666	(542,803)
Net deferred tax assets	**31,365,087**	**11,242,676**

Movement of deferred tax assets for the years ended 31 December 2021 and 2020 is as follows:

	2021	**2020**
Opening balances at 1 January	**11,242,676**	**6,399,754**
Deferred income tax benefit	20,122,411	4,842,922
Closing balance at 31 December	**31,365,087**	**11,242,676**

16. Equity

The Company'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 2021 and 2020 the share capital held is as follows:

Shareholders	**%**	**31 December 2021**	**%**	**31 December 2020**
SOCAR	60%	165,497	60%	165,497
TEKFEN	40%	111,388	40%	111,388
Nominal capital	**100%**	**276,885**	**100%**	**276,885**

In 2021, the Company declared dividends in the total amount of AZN 20,000,000 (2020: AZN 29,385,887) and paid total dividend in the amount of AZN 20,000,000 (2020: AZN 29,385,887) to its shareholders.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

17. Revenue from contracts with customers

Disaggregated revenue information

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

	For the year ended 31 December	
	2021	**2020**
Type of goods or service		
Construction	710,349,218	376,937,700
Total revenue from contracts with customers	**710,349,218**	**376,937,700**
Geographical markets		
Azerbaijan	705,219,610	376,871,873
Georgia	5,129,608	65,827
Total revenue from contracts with customers	**710,349,218**	**376,937,700**
Timing of revenue recognition		
Services transferred over time	690,925,200	364,790,762
Services transferred at a point in time	19,424,018	12,146,938
Total revenue from contracts with customers	**710,349,218**	**376,937,700**

The Company did not recognize revenue in reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price). The revenue recognized in reporting period that was included in the contract liability balance at the beginning of period was AZN 70,679,487 (2020: AZN 32,643,117).

Contract balances

	31 December	
	2021	**2020**
Trade receivables (Note 6)	35,996,052	53,157,043
Contract assets (Note 6)	25,948,372	56,138,744
Contract liabilities	(92,012,156)	(70,679,487)

Contract assets relate to revenue earned from ongoing construction services. As such, the balances of this account vary and depend on the number of ongoing construction services at the end of the year. In 2021, AZN 145,766 (2020: AZN 145,766) was recognised as provision for expected credit losses on contract assets.

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. The outstanding balances of these accounts increased in 2021 and 2020 due to the continuous increase in the Company's projects.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

18. Contract costs

An analysis of the Company’s contract costs for the year, is as follows:

	2021	2020
Payroll expenses and change in unused vacation provision	(184,156,230)	(119,466,540)
Service expenses	(140,863,008)	(94,655,059)
Materials	(104,170,407)	(60,040,040)
Machine-mechanizm services	(47,275,464)	(30,161,531)
Meal expense	(16,854,079)	(10,350,821)
Transportation expenses	(14,801,678)	(9,639,639)
Depreciation and amortization	(7,738,384)	(8,528,023)
Engineering expenses	(6,361,174)	(5,412,575)
Fuel expenses	(5,860,596)	(2,804,529)
Rent	(4,989,077)	(525,645)
Right-of-use asset depreciation	(4,036,307)	(3,422,096)
Insurance expenses	(3,952,043)	(3,307,011)
Testing expenses	(1,622,534)	(1,696,414)
Technical services and repair expenses	(1,395,676)	(1,090,511)
Utilities expenses	(1,262,395)	(960,764)
Trash dumping	(1,182,816)	(1,127,071)
Bank expenses	(1,015,765)	(763,378)
Medical expenses	(921,315)	(1,019,753)
Office expenses	(829,411)	(657,152)
Training expenses	(759,134)	(436,701)
Communication expenses	(430,472)	(387,886)
Other	(2,839,654)	(1,399,270)
Total contract costs	**(553,317,619)**	**(357,852,409)**

19. Administrative expenses

An analysis of the Company’s administrative expenses for the year, is as follows:

	2021	2020
Payroll expenses and change in unused vacation provision	(6,943,908)	(7,782,215)
Depreciation and amortization	(413,632)	(1,383,986)
Support to armed forces	–	(1,000,000)
Other administrative expenses	(992,217)	(1,535,860)
Total administrative expenses	**(8,349,757)**	**(11,702,061)**

20. Other (loss)/gain, net

An analysis of the Company’s other losses for the year, is as follows:

	2021	2020
Change in provision for bank guarantees	410,432	–
Change in provision for ECL	(1,588,595)	(246,022)
Change in provision for write-down of inventories	(1,535,447)	(12,107,712)
Loss on PPE and intangible assets disposal	(13,353)	(73,936)
Write off of contract assets	–	(352,496)
Total other (loss)/gain, net	**(2,726,963)**	**(12,780,166)**

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

21. Commitments and contingencies

Operating environment

The Company’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 Company’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 Company’s business in the foreseeable future.

COVID-19 pandemic

During March-August 2020, the increasingly restrictive lockdown measures to combat COVID-19 in many countries significantly reduced economic activity and aggregate spending levels. Social distancing and quarantine measures resulted in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses. International trade was also significantly reduced. Finally, oil prices tumbled to historic lows but moderately recovered by the end of the year. A support package was introduced by the Government and CBAR to counter the economic downturn caused by the pandemic. These measures include, but are not limited to, subsidized lending to affected industries, payments to unemployed individuals and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

By June-July 2020, many countries started to demonstrate signs of reduced spread of the pandemic. Governments started to gradually lift or ease restrictions. This tendency supported a recovery in global financial and commodity markets. However, the peak of the pandemic in Azerbaijan was reached during the months of October-December 2020, and as a result the lockdown measures became even more stringent. These measures resulted in a gradual reduction of coronavirus cases and elimination of most lockdown measures subsequently on 18 January 2021.

With the start of vaccination of Azerbaijani population on 16 January 2021 the Azerbaijani Government decided to gradually eliminate the special strict quarantine regime measures introduced in the previous year to combat the COVID-19 outbreak, such as travel restrictions, closure of business and other venues, lockdowns of certain areas throughout the country.

Defects liability

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

Bank guarantees

To guarantee different aspects of the Company’s obligations towards its customers under construction contracts the Company provides bank guarantees. Total value of outstanding guarantees at 31 December 2021 USD 54 million and AZN 9 million (AZN 101 million) (31 December 2020: USD 77 million and AZN 10 million (AZN 141 million)). There are no restrictions placed on the Company’s accounts or other assets to secure these guarantees. The Company expects that it will execute on all of its contracts and there will be no cash outflows under these guarantees.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

21. Commitments and contingencies (continued)

Operating environment (continued)

Other

Financial and political environment in all of the foreign countries can affect the Company’s operational and financial position in those countries. As of 31 December 2021 and 2020, management of the Company believes that there is no significant financial or political matter that will have an impact on the accompanying financial statements.

22. 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 Company 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 Company’s financial position. The Company’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company’s financial performance. To effectively manage the variety of exposures that may impact financial results, the Company’s overriding strategy is to maintain a strong financial position. Although there are no structured formal management procedures, management of the Company identifies and evaluates financial risks with reference to the current market position.

The main risks arising from the Company’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 Company 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 Company manages the inherent liquidity risk.

Financial risk factors

The Company’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 Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company’s financial performance.

Foreign currency risk management

The Company 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 Company’s foreign currency denominated monetary assets and monetary liabilities at the reporting date is disclosed below.

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

22. Financial risk management (continued)

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 (cash and trade receivables) and liabilities (trade payables) give rise to foreign exchange exposure. The Company 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 demominated in foreign currencies.

	31 December 2021			31 December 2020		
	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	75,435,620	266,054	6,282,985	22,359,581	4,757,323	13,100,097
Trade receivables	17,031,725	2,170,989	4,089,786	33,337,719	–	2,263,028
Trade payables	(12,901,559)	(905,049)	(3,851,601)	(4,563,726)	(1,118,136)	(212,510)
Net foreign currency position	**79,565,786**	**1,531,994**	**6,521,170**	**51,133,574**	**3,639,187**	**15,150,615**

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 Company'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 Company'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
2021	20%	15,913,157	21%	321,719	22%	1,434,657
	-3%	(2,386,974)	-9%	(137,879)	-9%	(586,905)
2020	20%	10,226,715	22%	800,621	23%	3,484,642
	-3%	(1,534,007)	-10%	(363,919)	-10%	(1,515,062)

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 Company is exposed to credit risk from its operating activities (primary trade receivables) and from its financing activities, including deposits with banks.

The Company 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 Company's maximimum 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:

	2021	2020
Cash and cash equivalents (Note 5)	224,290,753	46,207,943
Restricted cash (Note 5)	7,264,441	403,623
Trade receivables (Note 6)	35,996,052	53,157,043
Total maximum exposure to credit risk	**267,551,246**	**99,768,609**

(Amounts presented are in Azerbaijani Manats unless otherwise stated)

22. Financial risk management (continued)

Credit risk (continued)

The Company places its cash in reputable financial institutions in the Azerbaijan Republic with good financial position and good debt service. The Company continually monitors the status of the banks where its accounts are maintained. In addition, the Company'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 Company believes that the Company 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 Company will not be able to meet its financial obligations as they fall due. The Company'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 Company'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 Company's short, medium and long-term funding and liquidity management requirements. The Company 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 Company'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 Company can be required to pay. The tables includes both interest and principal cash flow.

2021	**1-3 months**	**3 months to 1 year**	**Total**
Trade payables	49,247,605	–	**49,247,605**

2020	**1-3 months**	**3 months to 1 year**	**Total**
Trade payables	70,883,635	–	**70,883,635**

Capital risk management

The primary objective of the Company'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 Company manages its capital and believes that it will be able to continue as a going concern while maximizing the return to stakeholders.

The Company's overall strategy remains unchanged from 2020.

23. Events after the reporting period

No subsequent events have occurred that would require recognition or disclosure in the financial statements.