



“Azfen” LLC

**International Financial Reporting Standards
Financial Statements and
Independent Auditor’s Report**

31 December 2024

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Independent Auditor's Report

To the Board of Directors of "Azfen" LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of "Azfen" LLC (the Company), which comprise the statement of financial position as at 31 December 2024, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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 of Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company incurred a net loss of AZN 25,914,576 during the year ended 31 December 2024 and, as of that date. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material 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 accompanying 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 scepticism throughout the audit. We also:

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

We also provide the those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Yunis Salayev.

A handwritten signature in blue ink, appearing to read "BDO Azerbaijan LLC".

5 May 2025

Baku, Azerbaijan

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2024

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the financial statements of "Azfen" LLC ("the Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2024, the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRSs")

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRSs;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Azerbaijan Republic;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Company's management the financial statements for the year ended 31 December 2024 were authorised for issue on 5 May 2025 by:

Hamid Hasanov
General Manager



Ali Ozcan
Deputy General Manager on Finance

A handwritten signature in blue ink, appearing to read "A. Ozcan", written over a horizontal line.

"Azfen" LLC
Statement of Financial Position as at 31 December 2024
In Azerbaijani Manats

	Note	31 December 2024	31 December 2023
ASSETS			
Current assets			
Cash and cash equivalents	5	48,595,713	43,820,275
Restricted cash	5	6,802,617	1,605,341
Trade receivables	6	24,823,044	21,748,592
Contract assets	6, 17	4,590,431	30,227,123
Inventories	8	5,395,159	9,881,554
Other receivables and other current assets	9	4,015,816	15,829,412
Total current assets		94,222,780	123,112,297
Non-current assets			
Property, plant and equipment	12	136,214,169	142,855,499
Intangible assets	13	386,086	514,573
Right-of-use asset	14	-	-
Deferred tax asset	15	16,523,065	10,090,553
Total non-current assets		153,123,320	153,460,625
TOTAL ASSETS		247,346,100	276,572,922
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables	10	5,487,016	13,825,630
Contract liabilities	17	3,326,881	-
Lease liability	14	-	237,188
Other payables	11	12,916,229	10,979,554
Total current liabilities		21,730,126	25,042,372
Equity			
Charter fund	16	276,885	276,885
Retained earnings		225,339,089	251,253,665
Total equity		225,615,974	251,530,550
TOTAL LIABILITIES AND EQUITY		247,346,100	276,572,922

Notes on pages 10-42 are an integral part of these financial statements.

Hamid Hasanov
General Manager



Ali Ozcan
Deputy General Manager on Finance

5 May 2025

"Azfen" LLC

Statement of profit or Loss and Other Comprehensive Income for the year ended 31 December 2024
In Azerbaijani Manats

	Note	For the year ended 31 December 2024	For the year ended 31 December 2023
Revenue from contract with customers	17	75,216,670	217,552,632
Contract costs	18	(98,880,801)	(195,639,869)
Gross (loss) / profit		(23,664,131)	21,912,763
Administrative expenses	19	(6,168,546)	(8,724,731)
Foreign exchange (loss) / gain, net		(193,706)	735,590
Finance gain/(expense)	14	143,813	(33,118)
Other loss, net	20	(1,139,024)	(15,680)
Other operating income		397,356	411,332
(Loss) / profit before tax		(30,624,238)	14,286,156
Income tax credit / (expense)	15	4,709,662	(2,820,559)
Net (loss)/ profit for the year		(25,914,576)	11,465,597
Other comprehensive income		-	-
Total comprehensive (loss) / income for the year		(25,914,576)	11,465,597

Notes on pages 10-42 are an integral part of these financial statements.

Hamid Hasanov
General Manager



Ali Ozcan
Deputy General Manager on Finance

5 May 2025

"Azfen" LLC
Statement of Cash Flows for the year ended 31 December 2024
In Azerbaijani Manats

	Note	Year ended 31 December 2024	Year ended 31 December 2023
Cash flows from operating activities:			
(Loss) / profit before tax		(30,624,238)	14,286,156
<i>Adjustments to reconcile profit before tax to net cash flows</i>			
Depreciation of property, plant and equipment	12	6,784,831	6,201,601
Depreciation of right-of-use asset	14	-	1,105,863
Amortisation of intangible assets	13	131,683	473,775
Write-down of inventory balance	8	-	745,229
(Recovery)/write-off of other receivables balance		148,859	(80,945)
Loss on disposal of property, plant and equipment	12	109,200	1,982
Movement in liability for unused vacation		472,769	(10,064,467)
Finance cost	14	(143,813)	33,118
Change in provision for expected credit loss	5	(53,809)	(650,585)
<i>Working capital adjustments</i>			
Increase in restricted cash		(5,197,276)	(579,879)
(Increase)/decrease in trade receivables		(3,074,452)	43,859,732
Decrease in inventories		4,486,395	7,475,388
Decrease/(increase) in contract assets		25,636,692	(17,049,463)
Decrease in other receivables and other current assets		11,664,737	21,082,964
Increase/(decrease) in contract liabilities		3,326,881	(7,532,515)
Decrease in trade payables		(8,338,614)	(14,090,630)
Increase/(decrease) in other payables and expenses accrual		1,463,906	(22,106,195)
Cash generated from operating activities		6,793,751	23,111,129
Interest paid on lease liabilities	14	-	(33,118)
Income taxes paid	15	(1,722,850)	-
Net cash generated from operating activities		5,070,901	23,078,011
Cash flows from investing activities:			
Purchase of property, plant and equipment	12	(252,701)	(137,928,270)
Purchase of intangible assets	13	(3,196)	-
Interest received		143,813	-
Net cash used in investing activities		(112,084)	(137,928,270)
Cash flows from financing activities:			
Payment of lease liabilities	14	(237,188)	(2,813,126)
Net cash used in financing activities		(237,188)	(2,813,126)
Net decrease in cash and cash equivalents		4,721,629	(117,663,385)
Movement in ECL for cash and cash equivalents	5	53,809	650,585
Cash and cash equivalents at the beginning of the year	5	43,820,275	160,833,075
Cash and cash equivalents at the end of the year	5	48,595,713	43,820,275

“Azfen” LLC
Statements of Changes in Equity for the year ended 31 December 2024
In Azerbaijani Manats

	Note	Charter fund	Retained earnings	Total
As at 1 January 2023		276,885	239,788,068	240,064,953
Net profit for the year		-	11,465,597	11,465,597
As at 31 December 2023		276,885	251,253,665	251,530,550
Net loss for the year		-	(25,914,576)	(25,914,576)
As at 31 December 2024		276,885	225,339,089	225,615,974

1. General information

The Company and its operations

"Azfen" LLC (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.

In December 2023, the Company changed its legal structure from Joint Venture to Limited Liability Company with no changes to shareholding interests.

The Company is located in Baku and had an average of 1,211 employees during the year (2023: 1,941).

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

Major projects

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

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

Georgian Pipeline Company – "AZF-098"

The project is associated with civil construction, installation of structures, fabrication of mechanical systems, mechanical installation works, as well as repair services for instrumentation and electrical equipment within the Georgian Region.

Oil Refinery named after Heydar Aliyev ("AZF-103")

The project is associated with the provision of design, engineering, procurement, and installation services as part of the Modernisation of the Oil Refinery named after Heydar Aliyev. It also includes construction and installation works at the Socar Methanol Plant, major tank overhaul at the same refinery, and construction-installation activities at Azerikimya Production Unit.

BP Exploration (Caspian Sea) Limited – "AZF-105"

The project includes brownfield modification works of the Azeri Central East (ACE) platform, construction and fabrication services for Shah Deniz Alpha power supply, offshore services on the Shah Deniz platform, fabrication services for the Well Jumper project, and activities under the STEL (Sangachal Terminal Electrification) project.

2. Basis of preparation and material 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 (IFRSs) 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.

Going concern

The Company incurred a net loss of 25,914,576 AZN during the year ended 31 December 2024. These financial statements have been prepared on the assumption that the Company will be able to continue its operation on a going concern basis for the foreseeable future. Management views the Company as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing activities or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan.

Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realise its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Company's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

The Company's major remaining project related to the modernization and reconstruction of the Heydar Aliyev Oil Refinery involves various call-off works, including the provision of design, engineering, procurement, installation services, and major tank overhauls. The project scope also covers construction and installation activities at other SDM entities, such as the SOCAR Methanol Plant, the Azerikimya Production Unit, and others. It is anticipated that the related call-off works under this project will extend beyond the end of 2025. The Company's other projects are small and have short-term horizon. On the grounds of the ahead-mentioned significant reduction in work volume a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Nevertheless, the management estimates that Company is a creditworthy, long-lasting profitable entity in the industry with historical positive trends and continuously participate in further tenders and expect to secure some of them in the near future. On the other hand, considering its current financial position and expected cash flows, the Company has necessary liquid funds to maintain its operations within at least further one more year in continuing search of further projects. Taking all this into account, management determines that the Company will be able to continue its operation on a going concern basis for a period of at least 12 months from the date of signing issuance of this financial statement.

These financial statements do not contain any adjustments that would be required if the Company was not able to continue as a going concern.

2.2. Summary of material accounting policies

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

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 realised customer returns, discounts, commissions' rebates, and taxes related to sales.

Construction contracts

Revenues from construction contracts are recognised 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 recognised 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 recognised 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 recognises 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.

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 recognised 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 recognise 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 recognised as expenses in the period in which they are incurred.

General and administrative expenses are associated with day-to-day and administrative activities of the Company's Head office and are recognised 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 recognised 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 recognised 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.

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 amortised cost less provision for expected credit loss ("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 liabilities

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

Costs to obtain contract

Assets are recognised 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.

Inventories

Inventories are stated at the lower of cost or net realisable 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 realisable 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.

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.

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

An item of property, plant, and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from 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 recognised in profit or loss.

At each reporting period, the Company assesses whether there is an indication that property, plant and equipment items may be 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:

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

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 amortisation and accumulated impairment losses. Intangible assets primarily include computer software licences and rights which are capitalised on the basis of all costs incurred to acquire the specific software licences and rights. Computer software licences which are the intangible assets with finite lives ranging from 1 to 10 years, are amortised on a straight-line basis over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired as described below in section Impairment of tangible and intangible assets. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

The estimated useful life and amortisation 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.

The estimated useful lives of the Company's rights and licenses are varied from 1 till 10 years.

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 derecognised 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 recognised in the profit or loss when the asset is derecognised.

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 CGU) is reduced to its recoverable amount. An impairment loss is recognised 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 recognised 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.

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 capitalised 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 recognised in the statement of profit and loss in the period in which they are incurred.

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 applying the appropriate rates of exchanges prevailing on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the re-measurement are recognised 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 recognised in profit or loss in the period in which they arise as described above except for:

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

The Company used the following official exchange rates in the preparation of these financial statements:

	31 December 2024	31 December 2023
USD	1.7000	1.7000
EUR	1.7724	1.8766
GBP	2.1382	2.1643
GEL	0.6091	0.6326
YTL	0.0485	0.0576

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.

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 amortised 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.

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 recognised 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.

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 recognised 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 amortised 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.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at banks which are free from encumbrances (demand deposits).

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.

Trade payables

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

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.

Transaction 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.

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.

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.

Corporate income tax

The income tax charge comprises current tax and deferred tax and is recognised on the profit or loss unless it relates to items or transactions that are recognised, 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 Company, 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.

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 utilised 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 Company, 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 utilised.

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 utilised. 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.

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 recognised 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 VAT exemption certifications issued by tax authorities and effective until 1 June 2025 and 31 July 2025 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.

Taxes other than corporate income tax

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

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.

Provisions for liabilities and charges

Provisions comprise liabilities of uncertain timing or amount. Provisions are recognised 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 recognised 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 recognised as interest expense (if any).

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 recognised 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.

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).

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 recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Company recognises 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 recognised, 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 recognises 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 recognised as expense on a straight-line basis over the lease term.

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 recognised over the lease term on the same basis as rental income.

3. Change in accounting policies and disclosures

New and amended IFRS standards that are effective for the current year

The following standards, amendments and interpretations are effective for the year ended December 31, 2024. These standards, amendments and interpretations are either not relevant to the Company's operations or did not have significant impact on the financial statements other than certain additional disclosures.

- Amendments to IFRS 7 'Financial Instruments: Disclosures' - Supplier finance arrangements
- Amendments to IFRS 16 'Leases' - Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions
- Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current
- Amendments to IAS 1 'Presentation of Financial Statements' - Non-current liabilities with covenants
- Amendments to IAS 7 'Statement of Cash Flows' - Supplier finance arrangements

The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose 'significant accounting policies' with 'material accounting policy information'. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

New standards, interpretations and amendments not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

The following amendments are effective for the period beginning 1 January 2025:

- Amendments to IAS 21 'The Effects of Changes in Foreign Exchange Rates' - Lack of Exchangeability

The following amendments are effective for the period beginning 1 January 2026:

- Amendments to IFRS 7 'Financial Instruments: Disclosures' - Amendments regarding the classification and measurement of financial instruments)
- Amendments to IFRS 9 'Financial Instruments' - Amendments regarding the classification and measurement of financial instruments
- Amendments to IFRS 7 'Financial Instruments: Disclosures' - Amendments regarding nature-dependent electricity contracts that are often structured as power purchase agreements (PPAs)
- Amendments to IFRS 9 'Financial Instruments' - Amendments regarding nature-dependent electricity contracts that are often structured as power purchase agreements (PPAs)

Management does not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods.

IFRS 18 'Presentation and Disclosures in Financial Statements' has been issued by IASB effective from January 01, 2027.

IFRS 19 'Subsidiaries without Public Accountability: Disclosures' has been issued by IASB effective from January 01, 2027.

4. 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 recognised 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 analysed. 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.

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 amortisation charges.

5. Cash and cash equivalents and restricted cash

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

	31 December 2024	31 December 2023
Cash at banks	48,734,166	44,012,537
Less - allowance for expected credit losses	(138,453)	(192,262)
Total cash and cash equivalents	48,595,713	43,820,275

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

	31 December 2024	31 December 2023
As at 1 January	(192,262)	(842,847)
Change in provision for ECL	53,809	650,585
As at 31 December	(138,453)	(192,262)

Restricted cash

Restricted cash comprised the following at 31 December:

	31 December 2024	31 December 2023
VAT deposit account	6,802,617	1,605,341
Total restricted cash	6,802,617	1,605,341

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.

6. Trade receivables and contract assets

Trade receivables

Trade receivables comprised the following 31 December:

	31 December 2024	31 December 2023
Trade receivables from related parties (Note 7)	18,425,173	5,912,518
Trade receivables from third parties	6,608,735	15,941,657
Less - allowance for expected credit losses	(210,864)	(105,583)
Total trade receivables	24,823,044	21,748,592

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

Contract assets

As at 31 December 2024, the Company had contract assets of AZN 4,590,431 (2023: 30,227,123 AZN) which were net of a provision for expected credit losses of AZN 34,354 (2023: AZN 206,066).

7. Balances and transaction 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

	For the year ended 31 December 2024	For the year ended 31 December 2023
Heydar Aliyev Oil Refinery	13,238,459	23,056,120
Azerikimya Production Unit	9,179,678	-
SOCAR Midstream Operations LLC	62,677	1,725,925
Total sales to related parties	22,480,814	24,782,045

Gross trade receivables from related parties

	31 December 2024	31 December 2023
Heydar Aliyev Oil Refinery	8,742,024	5,727,799
Azerikimya Production Unit	9,482,808	-
Tekfen İnşaat ve Tesisat A.Ş.	198,046	-
Tekfen Mühendislik A.Ş.	2,295	-
SOCAR Midstream Operations LLC	-	184,719
Total gross trade receivables from related parties	18,425,173	5,912,518

Gross contract assets from related parties

	31 December 2024	31 December 2023
Heydar Aliyev Oil Refinery	1,734,954	1,160,922
Azerikimya Production Unit	1,207,406	-
Total gross contract assets from related parties	2,942,360	1,160,922

Other receivables from related parties

	31 December 2024	31 December 2023
Tekfen İnşaat ve Tesisat A.Ş.	-	13,812
SOCAR CAPE LLC	-	-
Total other receivables of related parties	-	13,812

Advances given to related parties

	31 December 2024	31 December 2023
SOCAR Petroleum CJSC	66,370	53,670
Total advances given to related parties	66,370	53,670

Lease liability to related parties

	31 December 2024	31 December 2023
Cenub Tikinti Servis OJSC	-	237,188
Total lease liability to related parties	-	237,188

Interest expense on lease liability to related parties

	For the year ended 31 December 2024	For the year ended 31 December 2023
Cenub Tikinti Servis OJSC	-	33,118
Total interest expense on lease liability to related parties	-	33,118

Purchases from related parties

	For the year ended 31 December 2024	For the year ended 31 December 2023
SOCAR CAPE LLC	1,828,068	7,631,147
Tekfen İnşaat ve Tesisat A.Ş.	1,186,432	6,092,598
SOCAR Petroleum Georgia	484,251	501,063
SOCAR Petroleum OJSC	461,432	748,861
Caspian Innovation Center	154,387	206,666
Tekfen Mühendislik A.Ş.	117,810	1,186,967
SOCAR IT and Communications Department	51,610	51,610
Cenub Tikinti Servis OJSC	47,029	93,837
SOCAR STP LLC	6,660	5,278
Azerigas Production Unit ("Azerigas PU")	2,169	2,274
Total purchases from related parties	4,339,848	16,520,301

Trade payables due to related parties

	31 December 2024	31 December 2023
Tekfen İnşaat ve Tesisat A.Ş.	291,255	2,592,101
SOCAR Petroleum Georgia	156,517	145,372
SOCAR CAPE LLC	93,224	1,241,049
Caspian Innovation Center	30,892	26,180
SOCAR IT and Communications Department	6,879	9,132
Azerigas Production Unit ("Azerigas PU")	568	552
Tekfen Mühendislik A.Ş.	-	10,023
Cenub Tikinti Servis OJSC	-	-
Total trade payables due to related parties	579,335	4,024,409

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 2024 and 2023 including General Manager, First Deputy General Manager and Deputy General Manager on Finance. Key management individuals are entitled to salaries and other benefits of the Company in accordance with the approved payroll matrix and performance results of the Company. The compensation of key management personnel during 2024 and 2023 were as follows:

	For the year ended 31 December 2024	For the year ended 31 December 2023
Salaries and other short-term benefits	2,089,545	2,334,811
Total compensation of key management personnel	2,089,545	2,334,811

8. Inventories

	31 December 2024	31 December 2023
Inventories at construction site (at cost)	20,688,598	25,174,993
Provision for slow moving and obsolete inventories	(15,293,439)	(15,293,439)
Total inventories	5,395,159	9,881,554

Inventories at construction site includes 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 2024 are included in inventory. Inventories are recorded at lower of cost or net realisable value.

Provision for slow moving and obsolete inventories

	31 December 2024	31 December 2023
Balance at beginning of the year	15,293,439	14,548,264
Provision charged during the year	-	745,229
Balance at end of the year	15,293,493	15,293,493

During 2024, no additional loss (2023: loss in the amount of AZN 745,229) was recognised as expense to write-down inventories to net realisable value. This is recognised in other loss, net (see Note 20).

9. Other receivables and other current assets

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

	31 December 2024	31 December 2023
Advances given	3,700,844	1,562,168
Other receivables	314,972	120,927
Tax recoverable	-	14,146,317
Total other receivables and other current assets	4,015,816	15,829,412

Advance payments as at 31 December 2024 and 31 December 2023 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.

Tax recoverable is represented by net recoverable amount from tax authorities, which will be recovered by means of an offset against future tax liabilities (sales VAT, WHT, income taxes) or as a direct cash refund. As at 31 December 2024, the Company have no tax recoverable balance by the tax authorities.

10. Trade payables

Trade payables comprised the following at 31 December:

	31 December 2024	31 December 2023
Trade payables to third parties	4,907,681	9,801,221
Trade payables to related parties (Note 7)	579,335	4,024,409
Total trade payables	5,487,016	13,825,630

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:

	31 December 2024	31 December 2023
Payables to employees	5,275,103	4,492,216
Other tax payables	2,439,242	12,425
Social security contributions	1,255,724	1,818,887
Other	3,946,160	4,656,026
Total other payables	12,916,229	10,979,554

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

The balance of tax payables is related to the Company's operations in Georgia.

12. Property, plant and equipment

Property, plant and equipment comprised the following:

	Building	Machinery & equipment	Motor vehicles	Furniture & fixtures	Land	Total
Cost value						
At 1 January 2023	4,805,164	79,727,509	11,586,013	3,358,062	-	99,476,748
Additions	39,773,676	2,573,154	-	28,936	95,552,504	137,928,270
Disposals	-	(110,940)	-	(26,229)	-	(137,169)
At 31 December 2023	44,578,840	82,189,723	11,586,013	3,360,769	95,552,504	237,267,849
Additions	-	208,807	-	43,894	-	252,701
Disposals	(82,453)	(984,198)	(78,787)	(290,845)	-	(1,436,283)
At 31 December 2024	44,496,387	81,414,332	11,507,226	3,113,818	95,552,504	236,084,267
Accumulated depreciation						
At 1 January 2023	(3,313,627)	(70,920,166)	(11,300,436)	(2,811,707)	-	(88,345,936)
Charge for the year	(1,453,863)	(4,366,489)	(194,632)	(186,617)	-	(6,201,601)
Disposals	-	108,958	-	26,229	-	135,187
At 31 December 2023	(4,767,490)	(75,177,697)	(11,495,068)	(2,972,095)	-	(94,412,350)
Charge for the year	(2,984,399)	(3,560,684)	(59,178)	(180,570)	-	(6,784,831)
Disposals	-	969,628	78,787	278,668	-	1,327,083
At 31 December 2024	(7,751,889)	(77,768,753)	(11,475,459)	(2,873,997)	-	(99,870,098)
Book value						
At 31 December 2023	39,811,350	7,012,026	90,945	388,674	95,552,504	142,855,499
At 31 December 2024	36,744,498	3,645,579	31,767	239,821	95,552,504	136,214,169

13. Intangible assets

Intangible assets comprised the following:

	Rights and licences with definite useful life
Cost value	
At 1 January 2023	1,997,663
Additions	-
Disposals	(787,317)
At 31 December 2023	1,210,346
Additions	3,196
Disposals	(41,347)
At 31 December 2024	1,172,195
Accumulated amortisation	
At 1 January 2023	(1,009,315)
Charge for the year	(473,775)
Disposals	787,317
At 31 December 2023	(695,773)
Charge for the year	(131,683)
Disposals	41,347
At 31 December 2024	(786,109)
Book value	
At 31 December 2023	514,573
At 31 December 2024	386,086

14. Lease Liability and Right-of-use asset

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 2023	895,014	895,014
Lease modification	210,849	210,849
Depreciation expense	(1,105,863)	(1,105,863)
At 31 December 2023	-	-
Lease modification	-	-
Depreciation expense	-	-
At 31 December 2024	-	-

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

	31 December 2024	31 December 2023
At 1 January	237,188	2,839,465
Lease modification	-	210,849
Interest accrued	-	33,118
Payments	(237,188)	(2,846,244)
At 31 December	-	237,188
Current portion	-	237,188
Non-current portion	-	-

The following are the amounts recognised in profit or loss:

	For the year ended 31 December 2024	For the year ended 31 December 2023
Depreciation of right-of-use-assets (Note 18)	-	(1,105,863)
Interest expenses	-	(33,118)
Total amount recognised in profit or loss	-	(1,138,981)

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 2024 was 20% (2023: 20%).

The major components of income tax expense for the year ended 31 December 2024 and 2023 are:

	For the year ended 31 December 2024	For the year ended 31 December 2023
Current income tax		
Current income tax expense	-	-
Adjustments in respect of current income tax of previous year	1,722,850	-
Deferred tax		
Relating to origination and reversal of temporary differences	(6,432,512)	2,820,559
Income tax expense reported in the statement of profit or loss	(4,709,662)	2,820,559

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 IFRSs. The reconciliation between the expected and the actual taxation charge is provided below:

	For the year ended 31 December 2024	For the year ended 31 December 2023
Profit before tax	(30,624,238)	14,286,156
Statutory tax rate	20%	20%
Theoretical tax charge/(benefit) at the statutory tax rate	(6,124,848)	2,857,231
Tax effect of items which are not deductible or assessable for the taxation purposes:		
Income and expenses which are exempt from taxation	207,222	101,990
Non-deductible expenses for tax purposes	953,311	1,192,734
Adjustments in respect of current income tax of previous years	1,722,850	-
Other	(1,468,197)	(1,331,396)
Income tax expense reported in the statement of profit or loss and other comprehensive income	(4,709,662)	2,820,559

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

Income and expenses, which were exempt from taxation, were related to projects that were 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.

In 2024, the Company used its right to fully offset corporate income tax prepayment against its tax liabilities such as sales VAT, WHT, PIT etc.

Movement of current income tax payable and prepayment balance for the years ended 31 December 2024 and 2023 was as follows:

	31 December 2024	31 December 2023
Opening balance as of 1 January	-	24,843,850
Current income tax expense	-	-
Adjustments in respect of current income tax of previous year	(1,722,850)	-
Offset against other taxes payable	-	(24,843,850)
Payment during the year	1,722,850	-
Closing balance as of 31 December	-	-

Differences between IFRSs 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 recognises 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 IFRSs and tax purposes is detailed below:

	31 December 2024	31 December 2023
Tax effect of deductible/(taxable) temporary differences		
Trade receivables	55,910	21,117
Depreciation/amortisation differences of PPE and other intangible assets	2,391,644	2,145,145
Other receivables and current assets	24,739	(17,139)
Other payables and expense accruals	715,777	697,066
Contract assets and contract liabilities, net	(495,622)	(898,904)
Lease liability	-	47,438
Inventory	1,476,933	1,430,053
Losses available for offsetting against future taxable income	12,353,739	6,674,764
Other	(55)	(8,987)
Net deferred tax assets	16,523,065	10,090,553

Movement of deferred tax assets for the years ended 31 December 2024 and 2023 was as follows:

	31 December 2024	31 December 2023
Opening balance as of 1 January	10,090,553	12,911,112
Deferred income tax credit / expense	6,432,512	(2,820,559)
Closing balance as of 31 December	16,523,065	10,090,553

16. Equity

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

As of 31 December 2024 and 2023 the share capital held is as follows:

Shareholders	%	31 December 2024	%	31 December 2023
SOCAR	60%	165,497	60%	165,497
TEKFEN	40%	111,388	40%	111,388
Nominal capital	100%	276,885	100%	276,885

In 2024 and 2023 the Company has not declared any dividends.

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 2024	For the year ended 31 December 2023
Type of goods or services		
Construction	75,216,670	217,552,632
Total revenue from contracts with customers	75,216,670	217,552,632
Geographical markets		
Azerbaijan	65,425,526	207,130,750
Georgia	9,791,144	10,421,882
Total revenue from contracts with customers	75,216,670	217,552,632
Timing of revenue recognition		
Service transferred at a point in time	71,582,519	56,104,413
Services transferred over time	3,634,151	161,448,219
Total revenue from contracts with customers	75,216,670	217,552,632

The Company did not recognise revenue in reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price). The revenue recognised in reporting period that was included in the contract liability balance at the beginning of period was nil (2023: AZN 7,532,515).

	31 December 2024	31 December 2023
Trade receivables (Note 6)	24,823,044	21,748,592
Contract assets (Note 6)	4,590,431	30,227,123
Contract liabilities	3,326,881	-

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. Contract assets are net of a provision for expected credit losses of AZN 34,354 (2023: AZN 206,066).

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

18. Contract costs

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

	For the year ended 31 December 2024	For the year ended 31 December 2023
Payroll expenses and change in unused vacation provision	(47,946,157)	(76,521,622)
Service expenses	(14,666,226)	(44,017,045)
Materials	(13,152,589)	(28,110,258)
Depreciation and amortisation	(6,812,011)	(6,560,284)
Meal expense	(2,828,650)	(5,827,913)
Machine-mechanism services	(2,498,991)	(13,353,904)
Transportation expenses	(2,384,219)	(5,053,132)
Fuel expenses	(1,482,022)	(2,334,040)
Technical services and repair expenses	(837,078)	(936,430)
Rent	(509,099)	(648,976)
Office expenses	(508,668)	(587,236)
Testing expenses	(479,454)	(632,811)
Insurance expenses	(408,820)	(1,560,596)
Utilities expenses	(389,291)	(1,118,269)
Engineering expenses	(388,348)	(2,102,378)
Bank expenses	(285,000)	(419,593)
Medical expenses	(265,494)	(341,563)
Trash dumping	(261,784)	(790,707)
Communication expenses	(231,179)	(311,028)
Training expenses	(131,990)	(607,215)
Right-of-use assets depreciation	-	(1,105,863)
Other	(2,413,731)	(2,699,006)
Total contract costs	(98,880,801)	(195,639,869)

19. Administrative expenses

Analysis of the Company's administrative expenses for the year, is as follows:

	For the year ended 31 December 2024	For the year ended 31 December 2023
Payroll expenses and change in unused vacation provision	(5,190,703)	(6,044,678)
Depreciation and amortisation	(104,503)	(115,092)
Other administrative expenses	(873,340)	(2,564,961)
Total administrative expenses	(6,168,546)	(8,724,731)

20. Other loss, net

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

	For the year ended 31 December 2024	For the year ended 31 December 2023
Penalties and sanctions	(1,001,205)	-
(Write-off)/Recovery of other receivables	(148,859)	80,945
Loss on PPE and intangible assets disposal	(109,200)	(1,982)
Change in provision for ECL	120,240	650,586
Change in provision for write-down of inventories	-	(745,229)
Other (loss)/gain, net	(1,139,024)	(15,680)

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.

Effects of Ukraine-Russia War

The Russian Federation’s invasion of Ukraine and the subsequent global response to those military actions may have significant financial effects on many entities. These include entities with physical operations in Ukraine, Russia and Belarus, as well as indirect interests (e.g. suppliers and customers, investments and lenders).

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 2024 USD 18.75 million and AZN 3.15 million (AZN 35 million) (31 December 2023: USD 18.75 million and AZN 4.3 million (AZN 36 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.

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 2024, and 2023, 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 the 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 minimise 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 arises. 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.

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 denominated in foreign currencies.

	At 31 December 2024			At 31 December 2023		
	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	35,508,070	178,374	3,931,316	20,819,189	210,460	4,644,499
Trade receivables	4,708,743	-	-	11,082,237	-	-
Trade payables	(425,423)	(23,642)	(17,859)	(5,623,619)	(25,393)	(92,601)
Net foreign currency position	39,791,390	154,732	3,913,457	26,277,807	185,067	4,551,898

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
2024	2%	795,828	8.59%	13,291	9.24%	361,603
	(2%)	(795,828)	(5.53%)	(8,557)	(10.20%)	(399,173)
2023	20%	5,255,561	13%	24,059	11%	500,709
	(3%)	(788,334)	(6%)	(11,104)	(15%)	(682,785)

Credit risk

Credit risk is the risk that a 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 maximum exposure to credit risk is generally reflected as the book value of financial assets in the statement of financial position and is presented by class of assets as shown in the table below as at 31 December:

	31 December 2024	31 December 2023
Cash and cash equivalents (Note 5)	48,595,713	43,820,275
Restricted cash (Note 5)	6,802,617	1,605,341
Trade receivables (Note 6)	24,823,044	21,748,592
Total maximum exposure to credit risk	80,221,374	67,174,208

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.

The 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 the 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 include both interest and principal cash flow.

The maturity analysis of financial liabilities at 31 December 2024 is as follows:

	1 to 3 months	3 to 12 months	Over 1 year	Total
Liabilities				
Trade payables (Note 10)	5,487,016	-	-	5,487,016
Contract liabilities (Note 17)	3,326,881	-	-	3,326,881
Current lease liability (Note 14)	-	-	-	-
Total future payments	5,487,016	-	-	8,813,897

The maturity analysis of financial liabilities at 31 December 2023 is as follows:

	1 to 3 months	3 to 12 months	Over 1 year	Total
Liabilities				
Trade payables (Note 10)	13,825,630	-	-	13,825,630
Current lease liability (Note 14)	237,188	-	-	237,188
Total future payments	14,062,818	-	-	14,062,818

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 2023.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

23. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no financial instruments held by the Company which are measured at fair value as of December 31, 2024 and December 31, 2023.

Transfer between levels of the fair value hierarchy are recognised at the end of the reporting period during which the changes have occurred. However, there were no transfers between levels of fair value hierarchy during the year.

24. Subsequent events

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