PROKON LIMITED LIABILITY COMPANY

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

31 DECEMBER 2020

“PROKON” LIMITED LIABILITY COMPANY

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Independent Auditor's Report

To the Shareholders and Management of "Prokon" Limited Liability Company:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of "Prokon" Limited Liability Company (the Company) and its subsidiaries (together the "Group") as at 31 December 2020, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2020;
- The consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for 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 consolidated financial statements section of our report.

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

Independence

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, Republic of Azerbaijan

19 August 2021

"PROKON" LIMITED LIABILITY COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020
(in Azerbaijani Manats)

	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property and equipment	13	11,841,029	8,583,957
Advances for property and equipment	16	-	1,886,849
Right-of-use assets	19	701,441	3,368,465
Intangible assets		369,603	403,513
Deferred tax asset	12	37,613	1,175,469
Total non-current assets		**12,949,686**	**15,418,253**
Current assets			
Inventories		2,078,428	2,401,777
Trade and other receivables	14	29,813,393	18,303,462
Contract assets	15	19,524,536	1,181,826
Other receivables from related parties	25	1,827,124	340,000
Advances given and prepaid expenses	16	5,954,056	5,921,781
Current income tax prepayment		607,981	-
Cash and cash equivalents	17	337,156	180,293
Total current assets		**60,142,674**	**28,329,139**
TOTAL ASSETS		**73,092,360**	**43,747,392**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	100	100
Retained earnings		3,967,022	105,092
TOTAL EQUITY		**3,967,122**	**105,192**
Non-current liabilities			
Borrowings	20	2,322,500	7,164,874
Lease liabilities, long-term portion		48,534	1,065,850
Deferred tax liability		1,437,279	-
Total non-current liabilities		**3,808,313**	**8,230,724**
Current liabilities			
Borrowings	20	34,095,768	3,852,119
Lease liabilities	19	450,418	2,422,413
Trade and other payables	21	20,336,031	10,620,161
Contract liabilities	15	4,137,403	16,341,984
Current income tax payable	11	-	412,224
Other taxes payable		6,297,305	1,762,575
Total current liabilities		**65,316,925**	**35,411,476**
TOTAL LIABILITIES		**69,125,238**	**43,642,200**
TOTAL EQUITY AND LIABILITIES		**73,092,360**	**43,747,392**

The accompanying notes on pages 5-52 form an integral part of these consolidated financial statements.

Approved for issue and signed on 18 August 2021 by:

AZƏRBAYCAN RESPUBLİKASI Məhdud Məsuliyyətli Cəmiyyəti ProKon Limited Liability Company AZERBAIJAN REPUBLIC

Mr. Azad Namazov	**Mr. Ariz Huseynov**
General Director	Deputy General Director
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020
(in Azerbaijani Manats)

	Note	Year ended December 31, 2020	Year ended December 31, 2019
Revenue	7	115,669,416	55,685,797
Cost of sales	8	(93,544,852)	(48,512,030)
Gross profit		**22,124,564**	**7,173,767**
Other operating expenses	9	(7,894,161)	(3,187,341)
Foreign exchange loss, net		(217,379)	879,655
Other income		534,796	30,685
Operating profit		**14,547,820**	**4,896,766**
Fair value gain/(loss) on initial recognition		(243,033)	-
Finance costs	10	(3,118,381)	(1,584,161)
Profit before income tax		**11,186,406**	**3,312,605**
Income tax expense	11,12	(2,602,254)	(437,002)
PROFIT FOR THE YEAR		**8,584,152**	**2,875,603**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,584,152**	**2,875,603**

The accompanying notes on pages 5-50 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT DECEMBER 31, 2020
(in Azerbaijani Manats)

	Share capital	Retained earnings	Total
Balance at January 1, 2019	**100**	**2,835,494**	**2,835,594**
Total comprehensive income for the year	-	2,875,603	2,875,603
Dividends paid	-	(5,606,005)	(5,606,005)
Balance at December 31, 2019	**100**	**105,092**	**105,192**
Total comprehensive income for the year	-	8,584,152	8,584,152
Dividends paid	-	(4,722,222)	(4,722,222)
Balance at December 31, 2020	**100**	**3,967,022**	**3,967,122**

The accompanying notes on pages 5-50 form an integral part of these consolidated financial statements.

"PROKON" LIMITED LIABILITY COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS
AS AT DECEMBER 31, 2020
(in Azerbaijani Manats)

	Year ended December 31, 2020	Year ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax for the year	11,186,406	3,312,605
Adjustments for:		
Depreciation and amortization	4,569,039	1,848,510
Foreign exchange loss, net	217,379	(859,199)
Finance costs, net	3,118,381	1,584,161
(Gain)/loss on disposal of property, plant and equipment	104,752	-
(Gain)/loss on disposal of right of use assets and lease modification	(128,263)	-
Fair value gain/(loss) on initial recognition	243,033	-
Recovery of provision	-	(115,624)
	19,310,727	**5,770,453**
(Increase)/decrease in operating assets:		
Trade and other receivables	(12,296,066)	(15,520,979)
Advances given and prepaid expenses	(32,275)	(4,850,790)
Inventories	323,349	(2,401,400)
Restricted cash	-	6,830,119
Increase/(decrease) in operating liabilities:		
Trade and other payables	9,715,870	6,986,120
Contract assets/liabilities	(30,547,291)	15,446,523
Taxes other than income tax payable	4,320,650	361,042
Net cash flows from operations	(9,205,036)	12,621,088
Income tax paid	(262,000)	(2,994,768)
Interest paid	(3,252,217)	(806,656)
Net cash generated by operating activities	**(12,719,253)**	**8,819,664**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(3,822,357)	(10,630,501)
Acquisition of intangible assets	-	(417,233)
Loans granted to related parties	(6,359,000)	(340,000)
Loan repayments received from related parties	4,802,976	-
Net cash used in investing activities	**(5,378,381)**	**(11,387,734)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(4,722,222)	(5,606,005)
Proceeds from borrowings	63,151,715	25,739,339
Repayment of borrowings	(37,801,383)	(18,288,801)
Repayment of lease liabilities – principal	(2,381,772)	(582,653)
Net cash provided by financing activities	**18,246,338**	**1,261,880**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**148,704**	**(1,306,190)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**180,293**	**1,580,493**
Effect of exchange rate changes	8,159	(94,010)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**337,156**	**180,293**

The accompanying notes on pages 5-50 form an integral part of these consolidated financial statements.

1. ORGANIZATION AND OPERATIONS

"Prokon" Limited Liability Company (the "Company") was registered with the State Registry of Commercial Legal Entities Office of Baku City Tax Department of the Ministry of Taxes of the Republic of Azerbaijan on July 17, 2012 under the registration No.1701372611 as a limited liability company under the laws of the Republic of Azerbaijan.

Principal activity

The principal activities of the Company involve diverse types of construction activities including construction of industrial plants, buildings and warehouses, production and erection of steel structures, tank erection works, installation and erection of power plants, refineries and pipelines along with the supply of auxiliary equipment and materials.

The following shareholders owned the issued shares of the Company:

	December 31, 2020 %	December 31, 2019 %
Nobel Oil Services (UK) Ltd	95	95
Nobel Oil Investment (UK) Ltd	5	5
Total	**100**	**100**

As at December 31, 2020 and 2019, the Company was ultimately controlled by Mr. Nasib Hasanov.

The Company together with its subsidiaries hereinafter will be referred as the Group.

Registered address and place of business

The Company's registered address is:

89 "Neftchilar" Avenue, apt. 35, Sabail District, Baku, AZ1004, the Republic of Azerbaijan

The Company's principal place of business is:

25 "8 Noyabr" Avenue, Ravy Tower, 16th floor, Baku, AZ1025, the Republic of Azerbaijan

Business environment

The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by government as well as crude oil prices and stability of AZN.

Following the negative impact of decline in oil prices and devaluations of national currency against major international currencies, which took place in 2015, operating environment remained highly uncertain.

In addressing these challenges, the government accelerated reforms in support of long-term economic stability and sustainability. Furthermore, during 2020 the government continued tight monetary policy as well as allocated foreign currency resources which stabilized AZN.

In July 2021, Standard & Poor's, international credit rating agency, affirmed the long and short-term foreign and local currency sovereign credit ratings on Azerbaijan at 'BB+/B'. The outlook on the long-term ratings is stable.

1. ORGANIZATION AND OPERATIONS (CONTINUED)

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Azerbaijani authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. These measures have, among other things, restricted economic activity in Azerbaijan and have negatively impacted, and could continue to negatively impact businesses for an unknown period of time.

Alongside the COVID-19 outbreak, renewed hostilities began on 27 September 2020 between Azerbaijan and Armenia over Armenian-occupied Nagorno-Karabakh and territories surrounding Nagorno-Karabakh. Azerbaijan introduced martial law along with curfew and made several territorial gains over the following six weeks. An armistice agreement was signed on 10 November, 2020, which ended all hostilities in the Nagorno-Karabakh region and surrounding territories therein from 10 November, 2020.

The ongoing effects of the political and economic situation are difficult to predict, but they may have further effects on the economy of Azerbaijan, which may lead to a deterioration of the State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies.

The Company's Management is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Company's business in the foreseeable future. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of preparation

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. In making this judgment management considered current plans and financial position of the Group. There are continuous long-term projects and, hence, the future cash inflow does not cast significant doubt on the ability to continue as a going concern.

These consolidated financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise indicated.

The consolidated financial statements have been prepared on the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes effective from 1 January 2020, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 3.

2. PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Control is achieved when the Company:

- Has the power over the investee;
- Is exposed, or has rights, to variable return from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transitions between the members of the Group are eliminated on consolidation.

2. PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

Functional and presentation currency

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Azerbaijani Manats (“AZN”), which is the Group’s presentation currency. Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency are recognised in profit or loss.

The Group companies

Loans between the Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between the Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognised in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognised in other comprehensive income.

The results and financial position of each Group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

2. PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2020, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7 , EUR 1 = AZN 2.0890, GBP 1 = AZN 2.3021, RUB 1 = AZN 0.0231, TRY 1 = 0.2305 (31 December 2019: USD 1 = AZN 1.7, EUR 1 = AZN 1.9035, GBP 1 = AZN 2.2284, RUB 1 = 0.0274, TRY 1 = 0.2858). The principal average rate of exchange used for translating income and expenses was USD 1 = AZN 1.7, EUR 1 = AZN 1.9448, GBP 1 = 2.1868, RUB 1 = AZN 0.0236, TRY 1 = 0.2432 (2019: USD 1 = AZN 1.7, EUR 1 = AZN 2.007, GBP 1 = AZN 2.1698, RUB 1 = 0.0263, TRY 1 = 0.2995).

3. ADOPTION OF NEW AND REVISED STANDARDS

COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020. The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

There is no effect of the Amendment to the Company's financial statements, consessions are not applied.

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Group:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

4. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Group has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

4. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 17 “Insurance Contracts” (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an ‘investment-return service’ under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

4. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

4. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a

separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

4. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- *End date for Phase 1 relief for non-contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

Revenue from contracts with customers

Revenue is measured based on the consideration set by the contract with the customer and is recognized by applying the revenue recognition when 1. Identifying the contracts with a customer, 2. Identifying the performance obligations in the contract, 3. Determining the transaction price, 4. Allocating the transaction price to the performance obligations in the contract and 5. Recognizing revenue when (or as) the entity satisfies a performance obligation (or as the obligation is performed over the period of time). Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts

The Group constructs industrial plants under long-term contracts with customers. Such contracts are entered into before construction begins. Under the terms of the contracts, the Group is contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from construction contracts is therefore recognized over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

The Group becomes entitled to invoice customers for construction contracts based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work signed by a third-party assessor and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognized as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date, then the Group recognises a contract liability for the difference. There is no significant financing component in construction contracts with customers as the period between the recognition of revenue and the milestone payment is always less than one year.

Rendering of services

The Group provides professional services in the construction industries. Such services are recognised as a performance obligation satisfied over time. Revenue is recognised for these services based on the stage of completion of the contract. The directors have assessed that the stage of completion determined as the proportion of the total time expected to render services that has elapsed at the end of the reporting period is an appropriate measure of progress towards complete satisfaction of these performance obligations under IFRS 15. Payment for rendering of services is not due from the customer until the services are complete and therefore a contract asset is recognised over the period in which the services are performed representing the entity's right to consideration for the services performed to date. When the customer prepays the full or part of the contract amount, the transaction price received by the Group is recognised as a contract liability until the services provided to the customer. If, on the basis of the contract, the values in question express an unconditional right to payment, they are presented as receivables. Given the technical complexity, the size and the duration of the project, the additional payments, contract changes, price revisions, other reserves, and incentives must necessarily be taken into account and measured, before formalization of the agreement with the counterparty

Retention Receivable. Retainage is included in contract assets and liabilities until all of the performance requirements are completed by the Group. The final determination of classification is based on a careful review of the contract terms, contractor's historical experience of collection and that all costs related to the retention amount are included in the estimated costs to complete amount included in the work in progress schedule. Retention amount is classified to accounts receivable once relevant conditions are fulfilled and such receivable is conditional only on the passage of time.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency transactions

In preparing the consolidated financial statements of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Compensation and employee benefit costs

Remuneration to employees in respect of services rendered during the reporting period, including accruals for unused vacation and bonuses and payroll taxes, is recognised as an expense in the period in which it is incurred.

In accordance with the requirements of the Republic of Azerbaijan legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the pension fund of the Republic of Azerbaijan. This expense is charged to the statement of comprehensive income in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension fund. The Group does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Taxation

Income tax expense represents the sum of the tax currently payable, deferred tax and estimated reassessments, if such are relevant given the varying interpretations of the local tax code.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which of those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Operating taxes

Azerbaijan also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

VAT recoverable

VAT recoverable comprise of input VAT that mainly originated from the advance payments made to suppliers for services to be rendered or works to be performed as per conditions of the relevant supplier agreements and purchase of goods, works or services which can be offset against output VAT as per requirements of tax legislation of the Republic of Azerbaijan in future.

The current tax legislation of the Republic of Azerbaijan provides for the following input VAT recovery options:

- Credit against the output VAT;
- Offset with other corporate tax liabilities;
- Claim for the monetary refund from the National Treasury of the Republic of Azerbaijan.

Management makes an estimation that the Company will offset the VAT recoverable with other corporate tax liabilities.

Other taxes payable balance

"Other tax payables" line in the statement of financial position mainly comprise of output VAT mainly on sales invoices not yet settled and declared VAT liability for the sales invoices already settled.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and recognised impairment loss, if any. Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives.

Depreciation is calculated on a straight-line basis at the following annual prescribed rates:

	Useful lives in years
Machinery and equipment	5 -10
Motor vehicles	5
Furniture and other fixed assets	4 - 10

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of profit or loss and other comprehensive income in the period in which property is derecognised.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognized on a straight-line basis over their estimated useful lives, which is 5 to 15 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Group does not have intangible assets with indefinite useful life as at year end.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in-use. In assessing value in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories, consisting primarily of construction materials and supplies are measured at the lower of cost and net realizable value. The cost of inventories is based on weighted average cost principal, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Prepayments

Prepayments are carried at cost less accumulated impairment losses. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the period.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group stops recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group. For further information refer to Note 25.

Leases

The Group 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.

Group as a lessee

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) *Right-of-use assets*

The Group 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, as follows:

	Useful lives in years
Machinery and equipment	1 - 2.5
Workshop buildings	1.5 - 2.5
Motor vehicles	2 - 3

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of tangible and intangible assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and makes adjustments specific to the lease, e.g. term, country, currency and collateral.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (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). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. 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.

Provisions and contingencies

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Contingencies

Contingent liabilities attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the statement of financial position but are disclosed when an inflow of economic benefits is probable.

Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash in transit, cash deposits with banks with original maturities of three months or less and petty cash.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

Financial assets of the Group are classified in the measurement category of amortised cost (AC). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Other receivables from related parties

Loans issued to related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty. The EAD of a financial asset is its gross carrying amount at the time of default.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company uses information obtained from external credit reference agencies in order to assess probability of default (PD) based on transition matrix to measure expected credit losses (ECLs).

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default,
2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of default*

If historical experience indicates that financial assets, for which information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full, the Group considers this as an event of default for internal risk management purposes.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Significant financial difficulty of the issuer or the borrower;
(b) A breach of contract, such as a default or past due event (see (ii) above);
(c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-off policy*

(v) The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice, where appropriate. Any recoveries made are recognised in profit or loss.

(vi) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or when it transfers the financial assets and substantially all the risk and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities (other than financial guarantee), including trade and other payables are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Derecognition of financial liabilities.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in statement of profit or loss and other comprehensive income.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting. Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

Amendment of the consolidated financial statements after issue. Any changes to these consolidated financial statements after issue require approval of the Group's management who authorised these consolidated financial statements for issue.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Initial recognition of related party transactions.

In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Taxation

Significant judgment is required in determining the provision for income taxes. The Group recognizes liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

ECL measurement

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. The following components have a major impact on credit loss allowance: definition of default, Significant increase in credit risk ("SICR"), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Useful lives of property and equipment.

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

VAT recoverable

The current tax legislation of the Republic of Azerbaijan provides for the following input VAT recovery options:

- Credit against the output VAT;
- Offset with other corporate tax liabilities;
- Claim for the monetary refund from the National Treasury of the Republic of Azerbaijan.

Management makes an estimation that the Group will offset the VAT recoverable with its output VAT and other corporate tax liabilities.

Profitability of the construction contract

The margins originally estimated by the Group may reduce or increase due to higher or lower costs, respectively, incurred by the Group during contract execution. Generally, when the Group's policies and procedures to identify, monitor and manage costs for contract execution do not reflect the duration and complexity of the contract, or they are no longer accurate following the occurrence of unforeseeable events, the Group's results may be impacted. The Group has an experience and managerial capacity to perform controlling policies procedures and functions in order to track execution of the contract and accurately reflect the duration and complexity of it. As of 31 December 2020, major contracts under which the Group is operating were assessed as profitable. Estimates of revenues, costs or extent of progress toward completion is constantly monitored by the management at the end of each reporting period and revised, if circumstances change.

Lease - Extension and termination options

Extension and termination options are included in a property lease across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of buildings, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).

If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).

- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The extension options in office leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year there is no the revision of lease term to reflect the effect of exercising extension and termination options occurred.

Accruals

Accrual posting refers to a recognition of a cost or income item, belonging to a given accounting period, but not accounted at the closing date of the relevant period:

- Due to the absence of the relevant documentation mandatory to insert/release related good receipt/service entry sheet within the deadline for the accounting period subject to closure.
- Due to the fact that the payable invoices are not received or accounted within the deadline for the accounting period subject to closure, for costs not supported by purchase order.
- Due to the fact that the receivable invoices are not issued and accounted within the deadline for the accounting period (month) subject to closure. refer to the accounting period (month) whose costs or incomes items pertains and in which they must be accounted. Cost and revenue related to:
    - goods must be accounted in the month in which the property is transferred (partially or totally), mean as the transfer of the risks and benefits;
    - services must be accounted in the month in which the service is rendered and therefore provide a benefit to the Company. In the case of services for which the fruition is linearly distributed over the time, the cost or income item must be recognized proportionally over the time.

The management makes an estimation and reflects the best estimate of acrruals in the financial statements.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Budgeted costs and revenue recognition

The revenue of the Group is mainly derived from a long-term contract. The unit of account in IFRS 15 is a performance obligation. A contract's transaction price is allocated to performance obligation and recognised as revenue when, or as, the performance obligation is satisfied. Performance obligations of the Company are satisfied over time as work. Because of control transferring over time, revenue is recognised based on the extent of progress towards completion of the performance obligation.

The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. Cost-to-cost measure of progress is used for the contract because it best depicts the transfer of control to the customer that occurs as the Company incurs costs on the contract. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Due to the nature of the work required to be performed, the estimation of total revenue and cost at completion is complex, subject to many variables, and requires significant judgment. The Group includes estimated amounts in the transaction price when it believes it has an enforceable right to the modification, the amount can be estimated reliably, and its realization is probable. The estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved.

The cost controllers of the Group estimate total contract costs based on their experience and then adjust these estimates for specific risks, such as technical risks associated with a new design. Costs associated with specific risks are estimated by assessing the probability that conditions arising from these specific risks will affect the total cost to complete the project. After work on a project begins, assumptions that form the basis for the calculation of total project cost are examined on a regular basis and the estimates are updated to reflect the most current information and management's best judgment.

Adjustments to estimates of contract revenue, total contract cost, or extent of progress toward completion are often required as work progresses under the contract and as experience is gained, even though the scope of work required under the contract may not change. The nature of accounting for long-term contracts is such that refinements of the estimating process for changing conditions and new developments are continuous and characteristic of the process. Consequently, the amount of revenue recognised over time is sensitive to changes in the Group's estimates of total contract costs.

7. REVENUE

In Azerbaijani Manats	**2020**	**2019**
Construction contract revenue	113,827,323	52,343,815
Provision of services	687,322	2,001,441
Sale of goods	1,154,771	1,340,541
Total revenue	**115,669,416**	**55,685,797**

The Group entered into construction contracts to complete various construction, design and installation services for numerous customers. The main construction contract signed with TCM-KT JV Azerbaijan LLC in 2018 is for the construction scope at HAOR (Heydar Aliyev Oil Refinery).

7. REVENUE (CONTINUED)

Timing of revenue recognition (for each revenue stream) is as follows:

In Azerbaijani Manats	**2020**	**2019**
At a point in time	1,842,093	3,341,982
Over time	113,827,323	52,343,815
Total revenue from contracts with customers	**115,669,416**	**55,685,797**

8. COST OF SALES

In Azerbaijani Manats	**Note**	**2020**	**2019**
Services of subcontractors		48,921,600	32,897,600
Staff costs		18,442,388	6,887,700
Materials and components used		11,985,351	1,914,912
Operating lease expense for property, plant and equipment		4,509,819	893,436
Depreciation and amortisation	13,19	4,474,330	1,711,342
Meal expenses		1,412,910	403,734
Fuel expenses		934,901	237,785
Cost of goods sold		864,369	1,094,402
Repairs and maintenance services		229,881	405,537
Insurance costs		199,784	192,184
Transportation services		111,098	87,702
Other		1,458,421	1,785,696
Total cost of sales		**93,544,852**	**48,512,030**

Included in staff costs are statutory social security contributions of AZN 2,459,637 (2019: AZN 973,192).

9. OTHER OPERATING EXPENSES

In Azerbaijani Manats	**Note**	**2020**	**2019**
Professional services		2,779,723	1,718,621
Staff costs		2,106,675	826,265
Repairs and maintenance		1,246,612	113,956
Charity expenses		500,000	-
Business trip expenses		334,317	185,430
Bank charges		224,765	140,698
Rent expenses		112,566	21,000
Depreciation and amortisation	13,19	94,709	137,168
Communication expenses		15,942	22,695
Tax penalties and interest		-	1,333
Other		478,852	20,175
Total other operating expenses		**7,894,161**	**3,187,341**

9. OTHER OPERATING EXPENSES (CONTINUED)

Included in staff costs are statutory social security contributions of AZN 317,336 (2019: AZN 110,995).

Professional services are mostly comprised of services rendered by the parent company to the Group, such as financial, legal, internal audit, procurement and other services.

10. FINANCE COSTS

	Note	31 December 2020	31 December 2019
Interest on borrowings		1,885,198	225,108
Interest on bonds	24	987,353	1,098,903
Interest on lease liabilities	19	319,616	260,150
Interest on borrowings		100,611	-
Interest income on financial assets carried at amortised cost		(174,397)	-
Total finance costs		**3,118,381**	**1,584,161**

11. INCOME TAX EXPENSE

Year ended	31 December 2020	31 December 2019
Deferred tax charge/(benefit)	2,575,135	(953,612)
Under provision of current tax in prior year	27,119	-
Current income tax expense	-	1,390,614
Total income tax expense	**2,602,254**	**437,002**

11. INCOME TAX EXPENSE (CONTINUED)

The income tax benefit for the year calculated at Azerbaijani statutory income tax rate of 20% can be reconciled to the accounting profit as follows:

Year ended	**31 December 2020**	**31 December 2019**
Profit before tax	11,186,406	3,312,605
Income tax expense calculated at 20%	2,237,281	662,521
Under/(over) provision of current tax in prior years	27,119	(225,519)
Effect of non-deductible expense	186,461	-
Unrecognised tax loss carry forwards for the year	151,393	-
Income tax expense recognized in profit or loss	**2,602,254**	**437,002**

12. DEFERRED TAX

Movement in temporary differences during the respective years is as follows:

Tax effect of deductible / (taxable) temporary differences	**December 31, 2019**	**Recognised in profit or loss**	**December 31, 2020**
Cash and cash equivalents	-	3,457	3,457
Trade and other receivables	(1,807,596)	705,273	(1,102,323)
Advances given and prepaid expenses	108,443	(220,974)	(112,531)
Property and equipment	(435,261)	371,435	(63,826)
Intangible asset	-	(4,115)	(4,115)
Inventory	(356,940)	128,630	(228,310)
Right-of-use assets	(673,693)	533,405	(140,288)
Borrowings	-	26,834	26,834
Lease liabilities	697,653	(597,863)	99,790
Contract assets and liabilities	3,032,032	(6,926,217)	(3,894,185)
Trade and other payables	610,831	(76,405)	534,426
Tax loss carry forward	-	3,481,405	3,481,405
Net deferred tax asset	**1,175,469**	**(2,575,135)**	**(1,399,666)**

Tax effect of deductible / (taxable) temporary differences	**December 31, 2018**	**Recognised in profit or loss**	**December 31, 2019**
Trade and other receivables	145,768	(1,953,364)	(1,807,596)
Advances given and prepaid expenses	-	108,443	108,443
Property and equipment	32,398	(467,659)	(435,261)
Inventory	-	(356,940)	(356,940)
Right-of-use assets	-	(673,693)	(673,693)
Borrowings	26,357	(26,357)	-
Lease liabilities	-	697,653	697,653
Contract assets and liabilities	-	3,032,032	3,032,032
Trade and other payables	17,334	593,497	610,831
Net deferred tax asset	**221,857**	**953,612**	**1,175,469**

12. DEFERRED TAX (CONTINUED)

Company elects "cash method" for tax accounting in profit tax declaration. Thus, material differences with IFRS base are expected. However, Company reported no tax losses in prior tax periods and has been profitable per tax book. The Group has recognized a deferred tax asset in respect of tax loss originated in 2020 in the amount of AZN 3,481,405 and substantial amount of the balance is allowed for carry forward and utilization over the next 5 years.

Net deferred tax balance originates mostly because of differences in cash and accrual basis accounting for contract assets, liabilities and accounts receivable. Such differences are of temporary short-term nature and expected to be utilised over the next period. Company has sufficient future taxable profits built upon existing and potential opportunities. For more information refer to Note 26.

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity or consolidated Group of taxpayers. Deferred tax assets and deferred tax liabilities arising in different subsidiaries which may not be netted off for tax purposes were presented separately in the consolidated statement of financial position.

13. PROPERTY AND EQUIPMENT

Movements in the carrying amount of property and equipment were as follows:

In Azerbaijani Manats	**Machinery and equipment**	**Motor vehicles**	**Furniture and office equipment**	**Leasehold improve-ment**	**Total**
Cost at 1 January 2019	719,073	211,133	217,741	-	1,147,947
Accumulated depreciation	(393,750)	(43,424)	(100,919)	-	(538,093)
Carrying amount at 1 January 2019	**325,323**	**167,709**	**116,822**	**-**	**609,854**
Additions	7,995,193	556,322	263,597	-	8,815,112
Depreciation charge	(664,740)	(105,235)	(71,034)	-	(841,009)
Carrying amount at 31 December 2019	**7,655,776**	**618,796**	**309,385**	**-**	**8,583,957**
Cost at 1 January 2020	8,714,266	767,455	481,338	-	9,963,059
Accumulated depreciation	(1,058,490)	(148,659)	(171,953)	-	(1,379,102)
Carrying amount at 1 January 2020	**7,655,776**	**618,796**	**309,385**	**-**	**8,583,957**
Additions	5,316,730	14,146	339,735	38,595	5,709,206
Disposals	(89,370)	(20,141)	(88,235)	-	(197,746)
Depreciation charge	(2,074,663)	(146,689)	(118,311)	(7,719)	(2,347,382)
Accumulated depreciation of disposals	9,995	11,415	71,584	-	92,994
Carrying amount at 31 December 2020	**10,818,468**	**477,527**	**514,158**	**30,876**	**11,841,029**
Cost at 31 December 2020	13,941,626	761,460	732,838	38,595	15,474,519
Accumulated depreciation	(3,123,158)	(283,933)	(218,680)	(7,719)	(3,633,490)
Carrying amount at 31 December 2020	**10,818,468**	**477,527**	**514,158**	**30,876**	**11,841,029**

14. TRADE AND OTHER RECEIVABLES

In Azerbaijani Manats	31 December 2020	31 December 2019
Trade receivables	24,329,178	15,495,314
Allowance for doubtful debts	(31,002)	(31,002)
Total trade receivables	**24,298,176**	**15,464,312**
VAT recoverable	4,964,337	2,715,884
Other receivables	550,880	123,266
Total trade and other receivables	**29,813,393**	**18,303,462**
Current	29,813,393	18,303,462
Non-current	-	-
Total trade and other receivables	**29,813,393**	**18,303,462**

Movement in the allowance for doubtful debts:

In Azerbaijani Manats	31 December 2020	31 December 2019
Balance at beginning of the year	31,002	31,002
Amounts recovered during the year	-	-
Impairment losses recognised on receivables	-	-
Balance at the end of the year	**31,002**	**31,002**

Age of trade receivables is presented in the below table:

In Azerbaijani Manats	31 December 2020	31 December 2019
Current and not impaired	18,173,095	15,474,132
Age of receivables that are past due:	-	
1-30 days	6,104,589	-
61-90 days	31,494	-
Over 360 days	20,000	21,182
Total trade receivables	**24,329,178**	**15,495,314**

15. ASSETS AND LIABILITIES ARISING FROM CONTRACTS WITH CUSTOMERS

The Group has recognised the following assets and liabilities arising from contracts with customers:

In Azerbaijani Manats	31 December 2020	31 December 2019
Current contract assets from contracts with customers	19,524,536	1,181,826
Total current contract assets	**19,524,536**	**1,181,826**
Contract liabilities – advances from customers	4,137,403	16,341,984
Total current contract liabilities	**4,137,403**	**16,341,984**

At 31 December 2020 the Group recognised AZN 19,524,536 of contract asset in respect of following contracts (at 31 December 2019: AZN 1,181,826 in respect of the contract with SOCAR-Uniper LLC):

1. AZN 6,703,259 - with TCM-KT JV Azerbaijan (HAOR project);
2. AZN 6,593,699 with SOCAR-Uniper LLC;
3. AZN 4,524,060 with Ravy Property (Ravy project).
4. AZN 1,703,518 retention component (Samsung Engineering Co LTD)

The Group applies the IFRS 9 general model to measuring expected credit losses for contract assets. The contract assets relate to unbilled work in progress and have substantially similar risk characteristics as the trade receivables for the same types of contracts. These are of short-term nature as trade receivables, thus provisioned in lifetime mode. However, the longer the contract asset is outstanding the higher is the increased risk that it will not be collected. Company uses external rating information and statistics to derive risk parameters for provisioning model. For more information refer to Note 22. At the same time, accounts receivable is grouped based on shared credit risk characteristics and the days outstanding to monitor performance and payment behaviour of its customers. The Group may elect to further downgrade assigned external rating, if such is necessary.

As of 31 December 2020, the management assessed the expected credit losses to be insignificant.

At 31 December 2020 the Group recognised AZN 4,137,403 of contract liabilities in respect of the contracts with Sosial Rifah Namine - AZN 3,120,910; and Technidas Reunidas - AZN 1,016,493 (at 31 December 2019: AZN 16,341,984 of contract liabilities in respect of HAOR project).

15. ASSETS AND LIABILITIES ARISING FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Unsatisfied long-term contracts with customers

The following table presents information on unsatisfied performance obligations resulting from long-term contracts with customers.

In Azerbaijani Manats	31 December 2020	31 December 2019
Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied as at 1 January and 31 December	152,231,068	204,121,640

Management expects that 81% (AZN 123,275,478) of the transaction price allocated to the unsatisfied contracts as of 31 December 2020 will be recognised as revenue during the next reporting period. The remaining amount of the transaction price will be recognised in the 2022 financial year.

16. ADVANCES GIVEN AND PREPAID EXPENSES

	31 December 2020	31 December 2019
Advances to suppliers	5,912,235	5,830,515
Prepaid expenses	41,821	91,266
Advances paid for property and equipment	-	1,886,849
Total advances given and prepaid expenses	**5,954,056**	**7,808,630**

Movements in prepayments are as follows:

In Azerbaijani Manats	Total
Carrying value at 1 January 2019	**1,142,451**
Additions	24,725,506
Prepayments derecognised on receipt of related goods or services	(18,059,327)
Total prepayments at 31 December 2019	**7,808,630**
Additions	19,184,322
Prepayments derecognised on receipt of related goods or services	(21,038,896)
Total prepayments at 31 December 2020	**5,954,056**

17. CASH AND CASH EQUIVALENTS

In Azerbaijani Manats	**2020**	**2019**
Bank balances payable on demand	335,510	180,293
Cash on hand	1,646	-
Total cash and cash equivalents at 31 December	**337,156**	**180,293**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2020. Refer to Note 22 for the description of the Group's credit risk grading system.

In Azerbaijani Manats	**Bank balances payable on demand**
- Excellent	36,592
- Good	177,755
- Satisfactory	121,041
- Special monitoring	122
Total cash and cash equivalents	**335,510**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019. Refer to Note 22 for the description of the Group's credit risk grading system.

In Azerbaijani Manats	**Bank balances payable on demand**
- Good	169,815
- Satisfactory	8
- Special monitoring	10,470
Total cash and cash equivalents	**180,293**

18. SHARE CAPITAL

The Company's share capital is comprised of 20 participation shares with a par value of AZN 5. Each share entitles one vote to the shareholder. The structure of the share capital is presented in the Note 1.

Dividends declared and paid during the year were as follows:

In Azerbaijani Manats	2020	2019
Dividends payable at 1 January		
Dividends declared during the year	4,722,222	5,606,005
Dividends paid during the year	(4,722,222)	(5,606,005)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**236,111**	**280,300**

19. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group has lease contracts for various items of machinery, workshop buildings, vehicles and other equipment used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leases of machinery and vehicles with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemptions for these leases.

Some property leases contain variable payment terms that are linked to future usage of underlying asset. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base. Variable lease payments that depend on usage of underlying asset are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Expenses relating to variable lease payments not included in lease liabilities are reflected in profit or loss within Cost of Sales in amount of AZN 209,720 (2019: AZN nil).

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Machinery and equipment	Workshop buildings	Motor Vehicles	Total
As at 1 January 2019	**-**	**-**	**-**	**-**
Additions	3,012,180	1,154,722	195,345	4,362,247
Depreciation expense	(696,342)	(247,097)	(50,343)	(993,782)
As at 31 December 2019	**2,315,838**	**907,625**	**145,002**	**3,368,465**
Additions	-	203,772	-	203,772
Disposals	(821,701)	-	(44,315)	(866,016)
Depreciation charge	(1,370,073)	(735,898)	(81,778)	(2,187,749)
Other	(124,064)	307,031	2	182,969
As at 31 December 2020	**-**	**682,530**	**18,911**	**701,441**

19. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020	2019
As at 1 January	3,488,263	-
Additions	203,772	4,070,917
Accretion of interest	319,616	260,150
Payments	(2,701,388)	(842,804)
Derecognition	(971,252)	-
Other	159,941	
As at 31 December	**498,952**	**3,488,263**
Current	450,418	2,422,413
Non-current	48,534	1,065,850

The following are the amounts recognised in profit or loss:

	2020	2019
Depreciation expense of right-of-use assets	2,187,749	993,782
Interest expense on lease liabilities (included in finance cost)	319,616	260,150
Expense relating to short-term leases (included in cost of sales)	179,656	893,436
Expense relating to short-term leases (included in other operating expenses)	-	21,000
Expense relating to variable lease payments not included in lease liabilities (included in cost of sales)	209,720	-
Total amount recognized in profit or loss	**2,896,741**	**2,168,368**

The total cash outflow for leases in 2020 was AZN 2,701,388 (2019: AZN 842,804).

20. BORROWINGS

In Azerbaijani Manats	2020	2019
Term loans	36,284,097	10,924,568
Accrued interest	134,171	92,425
Total borrowings at 31 December	**36,418,268**	**11,016,993**

The Group's borrowings are denominated in currencies as follows:

In Azerbaijani Manats	2020	2019
Borrowings denominated in:		
- Azerbaijani Manats	19,470,542	4,537,463
- US Dollars	16,900,495	6,447,708
- Euros	47,231	31,822
Total borrowings at 31 December	**36,418,268**	**11,016,993**

20. BORROWINGS (CONTINUED)

On 27 November 2018, the Group entered into secured credit line agreement in the amount of USD 5 million with 6% annual interest rate, maturing on 27 November 2019 with International Bank of Azerbaijan Republic. On 26 November 2019, the Group prolonged the maturity date of the loan for another one-year and increased the credit line amount to USD 10 million. On 16 November 2020, the maturity date of this loan was prolonged for additional one-year.

On 27 May 2019, the Group entered into a credit line agreement with Pasha Bank in the amount of AZN 7.8 million with 9% annual interest rate, maturing on 27 May 2020. On 13 May 2020, the Group prolonged the maturity date of the credit line for another one-year and increased the credit line amount to AZN 10 million and annual interest rate was increased to 10.5%. On 13 May 2020, the Group entered into a new secured credit line agreement in the amount of AZN 17 million with 10.5% annual interest rate, maturing on 7 May 2021 with Pasha Bank.

On 18 August 2020, The Group signed a secured credit line agreement with Xalq Bank OJSC in the amount of AZN 660,000 with 2% annual interest rate for the period of 24 months. The current account balance of related party at Xalq Bank in the amount of AZN 694,737 was pledged as a collateral under this agreement. On 8 September 2020, the Group increased the maximum borrowing limit to AZN 2,322,500 with no change to the interest rate and maturity date, but the cash collateral amount was increased to AZN 2,444,737.

The carrying amounts and fair values of borrowings are as follows:

	Carrying amounts	
In Azerbaijani Manats	**2020**	**2019**
Term loans	36,284,097	10,924,568
Accrued interest on bonds	73,940	91,243
Accrued interest on term loans	60,231	1,182
Total borrowings at 31 December	**36,418,268**	**11,016,993**

21. TRADE AND OTHER PAYABLES

In Azerbaijani Manats	**2020**	**2019**
Trade payables	11,016,075	7,376,342
Accrued liabilities and other creditors	8,308,153	2,720,826
Total financial payables within trade and other payables at AC	***19,324,228***	***10,097,168***
Accrued employee benefit costs	936,241	474,344
Other	75,562	48,649
Total other payables	***1,011,803***	***522,993***
Trade and other payables at 31 December	**20,336,031**	**10,620,161**

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital management

The Group's capital has been managed by the shareholders to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt or equity balance.

The capital structure of the Group is comprised of equity and borrowings. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group has no externally imposed capital requirements throughout 2020 and 2019.

Categories of financial instruments

The Group's principal financial liabilities comprise loans, trade and other payables. Financial assets are represented by cash and cash equivalents and trade and other receivables.

All financial instruments held by the Group are recorded at amortized cost.

The main risks arising from the Group's financial instruments are credit, liquidity and currency risks.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial assets which are potentially subject to concentration of credit risk consist principally of trade and other receivables, contract assets and cash and cash equivalents.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies an approach based on risk grades estimated by external international rating agencies (Standard & Poor's – "S&P", Fitch, Moody's). External migration matrices were used for PD calculation and the defined master scale with a specified range of probabilities of default are disclosed in the table below:

Master scale credit risk grade	Corresponding ratings of external international rating agencies (S&P)	Corresponding PD interval
Excellent	AAA to BB+	0,01% – 0,5%
Good	BB to B+	0,51% – 3%
Satisfactory	B, B-	3% – 10%
Special monitoring	CCC+ to CC-	10% – 99,9%
Default	C, D-I, D-II	100%

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for financial assets.

External credit risk ratings are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies.

Currency risk

The Group is exposed to currency risk on sales, purchases, cash and cash equivalents and borrowings that are denominated in currencies other than AZN. The currency in which these transactions primarily denominated is US Dollars (USD) and Euro (EUR).

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2020			**At 31 December 2019**		
In Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
US Dollars	20,201,376	(17,199,145)	3,002,231	14,215,806	(6,998,071)	7,217,735
Euros	291,967	(51,695)	240,272	2,255	(286,758)	(284,503)
Pound Sterling	250,022	(79,074)	170,948	2,575	-	2,575
Russian Ruble	152,362	(750)	151,612	-	-	-
Turkish Lira	8,035	(30,079)	(22,044)	-	-	-
Total	**20,903,762**	**(17,360,743)**	**3,543,019**	**14,220,636**	**(7,284,829)**	**6,935,807**

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2020	At 31 December 2019
In Azerbaijani Manats	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20% (2019: strengthening by 20%)	600,446	1,443,547
US Dollar weakening by 20% (2019: weakening by 20%)	(600,446)	(1,443,547)
Euro strengthening by 20% (2019: strengthening by 20%)	48,054	(56,901)
Euro weakening by 20% (2019: weakening by 20%)	(48,054)	56,901
Pound Sterling strengthening by 20% (2019: strengthening by 20%)	34,190	515
Pound Sterling weakening by 20% (2019: weakening by 20%)	(34,190)	(515)
Russian Ruble strengthening by 20% (2019: strengthening by 20%)	30,322	-
Russian Ruble weakening by 20% (2019: weakening by 20%)	(30,322)	-
Turkish Lira strengthening by 20% (2019: strengthening by 20%)	(4,409)	-
Turkish Lira weakening by 20% (2019: weakening by 20%)	4,409	-

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group seeks to maintain a stable funding base primarily consisting of borrowing and trade and other payables. The Group keeps the funds in cash and cash equivalents, continuously monitors forecast and actual cash flows in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Group's approach to managing liquidity is to ensure, as far as possible, 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 Group's reputation.

The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Group`s Finance function.

The following tables detail the Group's analysis over remaining expected maturity periods for its non-derivative financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The maturity analysis of financial liabilities at 31 December 2020 is as follows:

In Azerbaijani Manats	**Contractual cash flows less than 12 months**	**Contractual cash flows more than 12 months**	**Total**
Assets			
Cash and cash equivalents	337,156	-	337,156
Trade and other receivables	24,329,178	-	24,329,178
Other receivables from related parties	1,827,124	-	1,827,124
Total financial assets	**26,493,458**	**-**	**26,493,458**
Liabilities			
Bank loans	34,095,768	2,322,500	36,418,268
Lease liabilities	450,418	48,534	498,952
Trade and other payables	19,324,228	-	19,324,228
Total financial liabilities	**53,870,414**	**2,371,034**	**56,241,448**
Net liquidity gap	**(27,376,956)**	**(2,371,034)**	**(29,747,990)**

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In Azerbaijani Manats	**Contractual cash flows less than 12 months**	**Contractual cash flows more than 12 months**	**Total**
Assets			
Cash and cash equivalents	180,293	-	180,293
Trade and other receivables	15,495,314	-	15,495,314
Other receivables from related parties	340,000	-	340,000
Total financial assets	**16,015,607**	**-**	**16,015,607**
Liabilities			
Bank loans	3,852,119	7,164,874	11,016,993
Lease liabilities	2,422,413	1,065,850	3,488,263
Trade and other payables	10,097,168	-	10,097,168
Total financial liabilities	**16,371,700**	**8,230,724**	**24,602,424**
Net liqudity gap	**(356,093)**	**(8,230,724)**	**(8,586,817)**

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk. The Group does not have floating interest rate financial instruments. Therefore, risk exposure to the effects of fluctuations in the prevailing levels of market interest rates on the Company's financial position and cash flows is minimized by having fixed rates negotiated on borrowings. However, interest margins may increase once loans mature and there is a need to negotiate a new credit facility.

23. FAIR VALUE DISCLOSURES

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2020			31 December 2019		
	Level 1 fair value	**Level 2 fair value**	**Level 3 fair value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**
ASSETS						
Financial assets at AC						
- Cash and cash equivalents	337,156	-	-	180,293	-	-
- Trade receivables	-	-	24,298,176	-	-	15,464,312
Total assets	**337,156**	**-**	**24,298,176**	**180,293**	**-**	**15,464,312**

	31 December 2020			31 December 2019		
	Level 1 fair value	**Level 2 fair value**	**Level 3 fair value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**
LIABILITIES						
Borrowings						
- Term loan	-	36,418,268	-	-	11,016,993	-
Other financial liabilities						
- Trade payables	-	-	11,016,075	**-**	-	7,376,342
- Other accrued liabilities	-	-	8,308,153	**-**	-	2,720,826
Total liabilities	**-**	**36,418,268**	**19,324,228**	**-**	**11,016,993**	**10,097,168**

23. FAIR VALUE DISCLOSURES (CONTINUED)

The fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated 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.

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. Discount rates used depend on the credit risk of the counterparty.

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. The discount rates used depend on the length and currency of the liability.

As of 31 December 2020, all of the Group's financial assets and liabilities were carried at amortised cost. Fair values of financial assets and liabilities of the Group approximate carrying value of the financial instruments.

24. COMMITMENTS AND CONTINGENCIES

Guarantees

The Group's financial guarantees at December 31, 2020 and December 31, 2019 were as follows:

In Azerbaijani Manats	**2020**	**2019**
Performance bonds	45,112,372	43,325,535
Advance bonds	19,576,401	24,990,000
Other	1,349,800	1,055,300
Total guarantees	**66,038,573**	**69,370,835**

Guarantees issued concern guarantees issued by banks in the interest of Group operating companies in relation to commitments undertaken upon core operations:

• Performance bonds - contract successful execution guarantee. With this guarantee, the bank undertakes the obligation to repay the client, up to a set amount, in the case of non-compliant execution of the contract by the contractor. Refer to Note 10.

• Advance bonds - repayment guarantee, requested for payment of contractual advances. With this guarantee the bank undertakes the obligation to repay the client a set amount, as reimbursement for amounts advanced, in the case of contractual non-compliance by the party requesting the guarantee (the contractor). Refer to Note 10.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Insurance

The insurance industry in Azerbaijan is at developing stage and many forms of insurance protection for manufacturing business common in other parts of the world are not yet available. The Group does not have full coverage for its plant facilities, business interruption or third-party liability in respect of property or environmental damage arising from accidents on Group’s property or relating to Group’s operations. The Group may be expected to compensate significant damages and losses from accidents with Group’s property or relating to Group’s operations.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

On the basis of the evidences gathered, it is conceivable that extra costs may arise in the continuation of the project, mainly related to prolongation (and acceleration) of construction activities and miscellaneous costs.

However, impact of these costs will strongly depend from the outcome of negotiation with customer, that will determine strategy of the project (e.g. possible schedule-driven approach, and related acceleration costs) and timing to complete the works (and therefore prolongation costs), the definitive resolution of the uncertainties that prevented the Company to execute its scope of work. Nevertheless, such costs will likely be counterbalanced by resolution of the pending change.

Management is of the opinion that no material losses will be incurred in respect of this case.

Taxation

Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management’s judgment of the Group’s business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued estimated tax amounts due and therefore required IFRIC 23 provisions have been followed in the consolidated financial statements.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the current practice, the statute of limitation for tax liabilities may be extended beyond the three-year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

25. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2020, the outstanding balances with related parties were as follows:

In Azerbaijani Manats	**Entities under common control**	**Associate**	**Key management personnel**
Loans issued	1,487,124	340,000	-
Contract assets	4,524,060	-	-
Investments in associates	-	-	-
Gross amount of advances given and prepaid expenses	2,061,002	-	-
Provisions for financial assets at 31 December	-	-	-
Trade and other payables	1,416,517	-	18,998

The income and expense items with related parties for the year ended 31 December 2020 were as follows:

In Azerbaijani Manats	**Entities under common control**	**Associate**	**Key management personnel**
Revenue from services rendered	13,258,802	-	-
Provisions for financial assets	-	-	-
Information, consulting and other professional services	2,437,000	-	-
Services of subcontractors	4,750,778	-	-
Other	-	-	18,998

At 31 December 2019, the outstanding balances with related parties were as follows:

In Azerbaijani Manats	**Entities under common control**	**Associate**	**Key management personnel**
Loans issued	-	340,000	-
Contract assets	-	-	-
Investments in associates	-	6,112	-
Gross amount of advances given and prepaid expenses	3,348,825	-	-
Provisions for financial assets at 31 December	-	(6,112)	-
Trade and other payables	282,898	-	64,097

25. RELATED PARTY TRANSACTIONS (CONTINUED)

The income and expense items with related parties for the year ended 31 December 2019 were as follows:

In Azerbaijani Manats	**Entities under common control**	**Associate**	**Key management personnel**
Revenue from services rendered	-	-	-
Provisions for financial assets	-	6,112	-
Information, consulting and other professional services	1,550,926	-	-
Services of subcontractors	1,861,500	-	-
Other	742,223	-	64,097

Key management compensation is presented below:

	2020	**2019**
In Azerbaijani Manats	**Expense**	**Expense**
Short-term benefits:		
- Salaries	250,144	349,643
Post-employment benefits:		
- State pension costs	47,303	54,650
Total key management compensation	**297,447**	**404,293**

26. EVENTS AFTER THE REPORTING PERIOD

COVID-19 impact

COVID-19 outbreak continues to affect the economy of the country, as well as the Group. The special quarantine measures in Azerbaijan have been extended till 01 September 2021.

Due to uncertainties associated with the COVID-19 and its indeterminate duration, certain proactive measures have been taken by management to secure the liquidity position of the Company and to be able to meet obligations for the foreseeable future. From 25 January 2021 the government started easing the restrictions gradually. Based on the order of the Cabinet of Ministers on "Vaccination Strategy covering 2021-2022 years" dated 16 January 2021, vaccination of Azerbaijan population has started. As the situation is fluid and rapidly evolving, the management does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

To the date these financial statements were ready for the issue, the Group did not experience a significant effect of the mentioned event and the management of the Group does not expect any material impact of the circumstances described above on their financial statements.

26. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

New significant contracts

On 21 April 2020, a contract with value of USD 3,140,000 for early civil cooling water plant works performance by Prokon LLC within SOCAR HAOR Modernisation and Reconstruction project was signed with Azerbaijan Republic Branch of Tecnicas Reunidas S.A. On 17 June 2021, amendment was signed which increased the total value of the contract to USD 9,156,912.

Additionally, new contracts were signed with Azerbaijan Republic Branch of Tecnicas Reunidas S.A. within SOCAR HAOR Modernisation and Reconstruction project:

1. On 15 January 2021 a contract with value of USD 1,750,000 for performance of cooling water tower package installation and erection works by Prokon LLC;

2. On 27 January 2021 a contract with value of USD 5,096,773 for performance of field fabricated carbon steel tanks works by Prokon LLC.

Borrowings

On 26 April 2021, the Group agreed with Pasha Bank to extend the maturity date of the credit line amounting AZN 17 million by 12 months to 7 May 2022.

On 27 July 2021, the Group increased the credit line amount of the secured credit line agreement with International Bank of Azerbaijan from USD 10 million to USD 12 million.