OFFICE COPY

PROKON LIMITED LIABILITY COMPANY

Financial Statements
For the Year Ended December 31, 2018

"PROKON" LIMITED LIABILITY COMPANY

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"PROKON" LIMITED LIABILITY COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Management is responsible for the preparation of the financial statements that present fairly the financial position of "Prokon" Limited Liability Company as at December 31, 2018, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended December 31, 2018 were approved by management on November 20, 2019.

On behalf of the Management:

Mr. Azad Namazov	**Mr. Ariz Huseynov**
General Director	Deputy General Director
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan
November 20, 2019	November 20, 2019

AZƏRBAYCAN RESPUBLİKASI Məhdud Məsuliyyətli Cəmiyyəti ProKon Limited Liability Company AZERBAIJAN REPUBLIC

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INDEPENDENT AUDITOR'S REPORT

To: Shareholder and management of "Prokon" Limited Liability Company

Opinion

We have audited the financial statements of Prokon Limited Liability Company (the "Company"), which comprise the statement of financial position as at December 31, 2018, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with 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.

Deloitte + Touche LLAC

DELOITTE & TOUCHE
MƏHDUD MƏSULİYYƏTLİ AUDİTOR CƏMİYYƏTİ
AZERBAIJAN

November 20, 2019

"PROKON" LIMITED LIABILITY COMPANY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(in Azerbaijani Manats)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
REVENUE			
Construction contract revenue	6	20,261,895	95,188,658
Provision of services		25,679	3,555,720
Other revenue		9,636,461	12,518,398
Total revenue		**29,924,035**	**111,262,776**
EXPENSES			
Construction contract costs	6	(18,391,469)	(98,223,944)
General and administrative expenses		(4,269,743)	(4,530,758)
Foreign exchange loss, net		(2,805,792)	(920,551)
Interest expense		(461,549)	(332,214)
Depreciation and amortization		(188,895)	(252,462)
Operating expenses		(17,304)	(4,062,539)
Profit before income tax		**3,789,283**	**2,940,308**
Income tax expense	7	(1,301,388)	(1,031,865)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,487,895**	**1,908,443**

The accompanying notes on pages 8-29 form an integral part of these financial statements.

On behalf of the Management:

Mr. Azad Namazov
General Director
Baku, the Republic of Azerbaijan

November 20, 2019

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

November 20, 2019

"PROKON" LIMITED LIABILITY COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(in Azerbaijani Manats)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Non-current assets			
Property and equipment		609,854	631,502
Advances for property and equipment		71,460	-
Intangible assets		-	403
Trade and other receivables	9	-	3,792,150
Restricted cash	11	6,830,119	7,214,751
Deferred tax asset	8	221,857	-
Total non-current assets		**7,733,290**	**11,638,806**
Current assets			
Trade and other receivables	9	3,068,848	10,377,032
Advances given and prepaid expenses	10	1,070,991	148,737
Cash and cash equivalents	12	1,580,493	97,698
Inventory		377	-
Total current assets		**5,720,709**	**10,623,467**
TOTAL ASSETS		**13,453,999**	**22,262,273**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	100	100
Retained earnings		2,835,494	3,203,434
TOTAL EQUITY		**2,835,594**	**3,203,534**
Non-current liabilities			
Deferred tax liability		-	684,822
Provisions		-	7,214,751
Total non-current liabilities		**-**	**7,899,573**
Current liabilities			
Bank loans	14	3,566,454	-
Loans from related parties		-	1,215,000
Trade and other payables	15, 18	3,634,041	7,980,603
Advances received		-	135,847
Current income tax payable		2,016,378	703,365
Taxes other than income tax payable		1,401,532	1,124,351
Total current liabilities		**10,618,405**	**11,159,166**
TOTAL LIABILITIES		**10,618,405**	**19,058,739**
TOTAL EQUITY AND LIABILITIES		**13,453,999**	**22,262,273**

The accompanying notes on pages 8-29 form an integral part of these financial statements.

On behalf of the Management:

Mr. Azad Namazov
General Director
Baku, the Republic of Azerbaijan

November 20, 2019

AZƏRBAYCAN RESPUBLİKASI
Məhdud Məsuliyyətli Cəmiyyəti
ProKon
Limited Liability Company
AZERBAIJAN REPUBLIC

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

November 20, 2019

"PROKON" LIMITED LIABILITY COMPANY

STATEMENT OF CHANGES IN EQUITY
AS AT DECEMBER 31, 2018
(in Azerbaijani Manats)

	Share capital	Retained earnings	Total
Balance at January 1, 2017	**100**	**1,294,991**	**1,295,091**
Total comprehensive income for the year	**-**	**1,908,443**	**1,908,443**
Balance at December 31, 2017	**100**	**3,203,434**	**3,203,534**
Total comprehensive income for the year	**-**	**2,487,895**	**2,487,895**
Dividends paid	-	(2,855,835)	(2,855,835)
Balance at December 31, 2018	**100**	**2,835,494**	**2,835,594**

The accompanying notes on pages 8-29 form an integral part of these financial statements.

On behalf of the Management:

Mr. Azad Namazov

General Director
Baku, the Republic of Azerbaijan

November 20, 2019

Mr. Ariz Huseynov

Deputy General Director
Baku, the Republic of Azerbaijan

November 20, 2019

"PROKON" LIMITED LIABILITY COMPANY

STATEMENT OF CASH FLOWS
AS AT DECEMBER 31, 2018
(in Azerbaijani Manats)

	Year ended December 31, 2018	Year ended December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	2,487,895	1,908,443
Adjustments for:		
Income tax expense	1,301,388	1,031,865
Depreciation and amortization	188,895	252,462
Foreign exchange loss, net	2,805,792	920,551
Interest expense	461,549	332,214
Impairment losses, net	66,248	-
	7,311,767	**4,445,535**
Movements in working capital:		
Decrease/(Increase) in trade and other receivables	8,717,188	(7,458,256)
(Increase)/Decrease in advances given and prepaid expenses	(922,254)	2,744,842
Increase of inventories	(377)	-
(Decrease)/Increase in trade and other payables	(11,562,400)	1,089,848
Decrease in advance received	(135,847)	(1,438,983)
Increase/(Decrease) of taxes other than income tax payable	277,181	(932,227)
Net cash flows from operations	3,685,258	(1,549,241)
Income tax paid	(895,054)	(148,721)
Interest paid	(353,162)	(361,019)
Net cash generated by / (used in) operating activities	**2,437,042**	**(2,058,981)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(238,304)	(652,702)
Net cash used in investing activities	**(238,304)**	**(652,702)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(2,855,835)	-
Proceeds from bank and related party loans, net	3,440,731	1,215,000
Repayment of borrowings	(1,215,000)	-
Net cash (used in)/ generated by financing activities	**(630,104)**	**1,215,000**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**1,568,634**	**(1,496,683)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**97,698**	**1,594,381**
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies, net	(85,839)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,580,493**	**97,698**

The accompanying notes on pages 8-29 form an integral part of these financial statements.

On behalf of the Management:

AZƏRBAYCAN RESPUBLİKASI Məhdud Məsuliyyətli Cəmiyyəti ProKon Limited Liability Company AZERBAIJAN REPUBLIC

Mr. Azad Mamazov
General Director
Baku, the Republic of Azerbaijan

November 20, 2019

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

November 20, 2019

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, 2018 %	December 31, 2017 %
Nobel Oil Services (UK) Ltd	95	95
Nobel Oil Investment (UK) Ltd	5	5
Total	**100**	**100**

As at December 31, 2018 and 2017, the Company was ultimately controlled by Mr. Nasib Hasanov.

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:
10QA. Qayibov Street, SDN Plaza, 5th floor, Baku, AZ1029, the Republic of Azerbaijan

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

These 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 financial statements have been prepared on the assumption that the Company 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 Company. There are continuous long-term projects and, hence, future cash inflow do not cast significant doubt on the ability to continue as going concern.

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

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 Company 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.

Functional and presentation currency

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency and the Company's presentation currency, is the Azerbaijani Manat ("AZN").

3. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the following new and revised Standards and Interpretations have been adopted. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

- Amendments to IAS 7 *Disclosure Initiative*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12;
- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers* (and the related Clarifications)[1];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

Amendments to IAS 7 *Disclosure Initiative*

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of borrowings. A reconciliation between the opening and closing balances of these items is provided in note 14. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 14, the application of these amendments has had no impact on the Company's financial statements.

Annual Improvements to IFRSs – 2014-2016 Cycle – amendments to IFRS 12

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Company's financial statements.

IFRS 9 *Financial Instruments*

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS that are effective for an annual period that begins on or after 1 January 2018. As permitted by the transition provisions, the Company has elected not to restate the comparatives for the adoption of IFRS 9.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value through profit and loss or fair value through other comprehensive income (FVTOCI) on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Management of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on classification and measurement of the financial assets that were previously accounted for under IAS 39. The main financial assets of the Company are trade and other receivables, long-term trade receivables and loans given to related parties and they are recognized at amortized cost under IFRS 9, as contractual cash flows are ultimately comprised of repayment of principal and interest amount. Nothing changed compared to prior year, as these financial assets were already recognized at amortized cost under IAS 39.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL.

Management of the Company has made an assessment of loss provision for trade and other receivables according to the requirements of IFRS 9 and has concluded that the loss provision calculated under IFRS 9 and IAS 39 does not differ materially. Therefore, quantitative transition disclosures as required by IFRS 9 have not been presented in these financial statements.
The Company has experienced expected credit losses of AZN 66,248 with respect to its trade and other receivables and current bank accounts as at December 31, 2018.

(c) Classification and measurement of financial liabilities

The Company does not have financial liability designated as at FVTPL. The main financial liabilities of the Company are trade and other payables and long-term borrowings and they are recognized at amortized cost under IFRS 9, as contractual cash flows are ultimately comprised of repayment of principal and interest amount. Nothing changed compared to prior year, as these financial liabilities were already recognized at amortized cost under IAS 39.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 18 *Revenue* and IAS 11 *Construction Contracts* when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Effective 1 January 2018, the company adopted IFRS 15 *Revenue from contract with customers.* Management performed analysis based on a five-step approach to revenue recognition and identified that revenue stream previously accounted for under IAS 18 and IAS 11 meets definition of separate performance obligation under IFRS 15. Management believes that IFRS 15 does not have a material impact on the financial position and/or financial performance of the Company.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

Management of the Company assessed that the application of IFRIC 22 does not have a material impact on the Company financial statements as the Company currently uses the approach prescribed in IFRIC 22.

New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 16 *Leases*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[1].

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Company will be January 1, 2019.

The Company has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16: C5 (b). The company will apply retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs IFRS 16: C7-C13.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019.

IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases, the Company will:

(a) Recognize right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
(c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Based on an analysis of the Company's finance leases as at December 31, 2018 on the basis of the facts and circumstances that exist at that date, management of the Company have assessed that the impact of this change will not have material impact on the amounts recognized in the Company's financial statements as at December 31, 2018.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

Management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Company's financial statements as the Company currently uses the approach to recognize uncertain tax position, which is consistent with IFRIC 23.

Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after 1 January 2019.

Management does not anticipate that the application of other Standards and Interpretations listed above will have a material impact on the Company's financial statements.

4. 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 Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer.

Construction contracts

The Company constructs oil and gas wells and industrial plants under long-term contracts with customers. Such contracts are entered into before construction begins. Under the terms of the contracts, the Company 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 recognised 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 Company 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 Company 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 under the cost-to-cost method then the Company recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.

Rendering of services

The Company 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 Company is recognised as a contract liability until the services provided to the customer.

Foreign currency transactions

In preparing the financial statements of the Company, 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 Company does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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 Company'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 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 Company's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

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:

Motor vehicles	20%
Office equipment	25%
Other fixed assets	20%

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.

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. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. 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.

Provisions and contingencies

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 Company 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.

Financial assets

Financial assets of the Company are classified as cash and cash equivalents and trade receivables. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables 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 Company recognises a loss allowance for expected credit losses on investments in debt instruments 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 expected credit losses on trade receivables are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, credit ratings and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company 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 Company 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 Company'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 Company'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 Company 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 Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company 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.

The Company 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 Company 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 Company, in full, the Company considers this as an event of default for internal risk management purposes.

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company 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

The Company 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 Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) 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.

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

If the Company 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 Company 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 Company 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 Company 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 Company neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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 Company 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 Company derecognises financial liabilities when, and only when, the Company'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 comprehensive income.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities and recognize amounts of income and expenses that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations indicated below, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Taxation

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition on construction contracts

The Company accounts for revenue from construction projects using the percentage of completion method. Critical to the correct application of this method are the accuracy of estimates of the financial outcome at completion, as well as the determination of the extent of progress towards completion.

In estimating the percentage of completion, the Company uses the following approaches:

- Comparing the proportion of the costs incurred to date to the estimated total cost of the project. The total estimated cost is based on historical experience, the remaining effort to complete the contract, and various other assumptions;
- Measurement based on the completion of a physical proportion of the contract work.

To the extent there is such a change, the amount of revenue and costs recognised in future periods may vary and if the total estimated costs exceed the total revenue a loss would be recorded at the time such loss is revealed.

Recognition of future losses on constructions contracts

The Company recognises the expected losses on construction contracts immediately when it is probable that total contract costs will exceed total contract revenue. The amount recognised is determined as the management's best estimate of the excess amount of total contract costs over total contract price. No future losses for construction contracts have been estimated and recognised for the years ended December 31, 2018 and 2017.

Provision for expected credit losses on financial assets

The Company uses a provision matrix to calculate expected credit losses for financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. Where applicable, the Company relies on default rates derived from external rates of counterparties. The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Increase in credit ratings of the customers will not result in material provision for expected credit losses on financial assets of the Company.

6. CONSTRUCTION CONTRACT REVENUE/COST

The Company entered into construction contracts to complete various construction, design and installation services for numerous customers. Main construction contract signed with Samsung Engineering Co Ltd in 2015 to construct an ammonia fertilizer factory for SOCAR for a total amount of EUR 69,000 thousand. Construction revenue is recognized under the percentage of completion method measured based upon expectations of future costs to be incurred to complete the contracts, which is 100% complete as at 31 December 2018. Total amount of construction contract revenue as at December 31, 2018 was 20,262 thousand (2017: 95,189 thousand).

Costs incurred in construction contract for the financial year 2018 is AZN 18,391 thousand (2017: 98,224 thousand). These costs are originated from construction and installation works.

7. INCOME TAX EXPENSE

	Year ended December 31, 2018	Year ended December 31, 2017
Current income tax expense	2,208,067	264,127
Deferred tax (benefit)/ expense	(906,679)	767,738
Total income tax expense	**1,301,388**	**1,031,865**

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 December 31, 2018	Year ended December 31, 2017
Profit before tax	3,789,283	2,940,308
Income tax expense calculated at 20%	(757,857)	(588,062)
Effect of non-deductible expense	(543,531)	(443,803)
Income tax expense recognized in profit or loss	**(1,301,388)**	**(1,031,865)**

8. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2018		December 31, 2017	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Trade and other receivables	145,768	-	-	(1,603,212)
Property and equipment	32,398	-	15,825	-
Bank loans	26,357	-	-	-
Trade and other payables	17,334	-	902,565	-
Total deferred tax asset/(liability)	**221,857**	**-**	**918,390**	**(1,603,212)**

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

	31 December 2018	Recognised in profit or loss	31 December 2017
Trade and other receivables	145,768	1,748,980	(1,603,212)
Property plant and equipment	32,398	16,573	15,825)
Bank Loans	26,357	26,357	-
Trade and other payables	17,334	(885,231)	902,565
Net deferred tax liability	**221,857**	**906,679**	**(684,822)**

	December 31, 2017	Recognised in profit or loss	December 31, 2016
Trade and other receivables	(1,603,212)	(505,327)	(1,097,885)
Property and equipment	15,825	8,382	7,443
Bank loans	-	(5,766)	5,766
Trade and other payables	902,565	(265,027)	1,167,592
Total deferred tax (liability)/ asset	**(684,822)**	**(767,738)**	**82,916**

9. TRADE AND OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Trade receivables	2,085,766	13,510,481
Allowance for doubtful debts	(31,002)	(81,025)
Total trade receivables	**2,054,764**	**13,429,456**
VAT recoverable	691,221	656,113
Amounts due from customers	286,365	-
Other receivables	36,498	83,613
Total trade and other receivables	**3,068,848**	**14,169,182**
Current	3,068,848	10,377,032
Non-current	-	3,792,150
Total trade and other receivables	**3,068,648**	**14,169,182**

Movement in the allowance for doubtful debts:

	December 31, 2018	December 31, 2017
Balance at beginning of the year	81,025	100,974
Amounts recovered during the year	(50,023)	(19,949)
Impairment losses recognised on receivables	-	-
Balance at the end of the year	**31,002**	**81,025**

Age of trade receivables is presented in the below table:

	31 December 2018	31 December 2017
Current and not impaired	-	13,429,456
Age of receivables that are past due:		
1-30 days	200,978	-
31-60 days	-	-
61-90 days	19,853	-
91-180 days	528,848	-
181-360 days	1,305,085	-
Over 360 days	-	-
Total trade receivables	**2,054,764**	**13,429,456**

As at December 31, 2018, trade receivables due from Samsung Engineering Co. Ltd represent 97% (2017: 98%) of the total balance of trade receivables. There are no other customers who represent more than 5% of the total balance of trade receivables as at December 31, 2018 and 2017.
The Company performs ongoing assessment of the collectability of trade receivables. The credit period is determined for each customer individually. No interest is charged on trade receivables.

Contracts in progress at the reporting date:

	31 December 2018	31 December 2017
Contracts in progress at the end of the reporting period		
Construction costs incurred plus recognised profits less recognised losses to date	286,365	128,020,882
Less: progress billings	-	(128,630,096)
	286,365	**(609,214)**
Recognised and included in the financial statements as:		
- contract assets	286,365	-
- contract liabilities	-	(609,214)

10. ADVANCES GIVEN AND PREPAID EXPENSES

	December 31, 2018	December 31, 2017
Advances to suppliers	1,003,345	36,271
Prepaid expenses	67,646	112,466
Total advances given and prepaid expenses	**1,070,991**	**148,737**

11. RESTRICTED CASH

At 31 December 2018, cash of AZN 6,830,119 was pledged as collateral for loans obtained from Pasha Bank (note 14) for the purpose of providing financial assurance that the Company will fulfil its obligations for loan repayments when they become due.

As 31 December 2017, cash of AZN 7,214,751 was pledged as a collateral for the performance bonds obtained under the construction contracts from Pasha Bank for the purpose of providing financial assurance that the Company will fulfil its obligations before the bank in the case of performance bond release.

12. CASH AND CASH EQUIVALENTS

At 31 December 2018, the Company had a bank balance of AZN 1,580,493 (2017: AZN 97,698). More than 90% of cash balances are in Pasha Bank and International Bank of Azerbaijan Republic

13. 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.

14. BANK LOANS

	31 December 2018	31 December 2017
Bank loans	3,440,731	-
Accrued interest	125,723	-
Total loans and borrowings	**3,566,454**	-

	Interest rate	Rate	31 December 2018	Rate	31 December 2017
Secured borrowings at amortised cost					
USD denominated					
International Bank of Azerbaijan Republic	Fixed	6%	2,975,000	-	-
Ziraat Bank	Fixed	5%	465,731	-	-
Interest payable			**125,723**	-	-
Total			**3,566,454**		-
Long-term portion of borrowings			-		-
Current portion repayable in one year and shown under current liabilities			**3,566,454**		-

On November 27, 2018, the Company restructured its loans from International Bank of Azerbaijan Republic and re-entered into secured credit agreement in the amount of USD 5 million with 6% annual interest rate, maturing on November 27, 2019 with International Bank of Azerbaijan Republic.

On August 30, 2018, the Company restructured its loans from Ziraat Bank and re-entered into secured credit agreement in the amount of USD 320 thousand with 5% annual interest rate, maturing on August 30, 2019 with Ziraat Bank.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

		Cash changes			Non-cash changes		
	1 January 2018	Financing cash flows (i)	Repay-ment of bank loans	Interest paid	Effect of foreign exchange rate changes	Other changes (ii)	31 December 2018
Loans and borrowings	-	3,440,731	-	(353,162)	17,336	461,549	3,566,454

(i) The cash flows from bank loans make up the total amount of proceeds from borrowings in the statement of cash flows;
(ii) Other changes includes AZN 461,549 accrued interest expense amount.

15. TRADE AND OTHER PAYABLES

	December 31, 2018	December 31, 2017
Trade payables	2,819,323	6,693,947
Amounts due to customers	-	609,214
Accrued expenses and other creditors	814,718	677,442
Total trade and other payables	**3,634,041**	**7,980,603**

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital management

The Company'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 Company is comprised of equity and loans and borrowings.

Categories of financial instruments

The Company's principal financial liabilities comprise loans and borrowings and trade and other payables. Financial assets are represented by trade and other receivables and bank balances. All financial instruments held by the Company are recorded at amortized cost.

The carrying amounts of the Company's financial instruments as at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Financial assets measured at amortized cost		
Trade receivables	2,341,129	13,429,456
Restricted cash	6,830,119	7,214,751
Cash and cash equivalents	1,580,493	97,698
Total financial assets	**10,751,741**	**20,741,905**
Financial liabilities measured at amortized cost		
Bank loans	3,566,454	-
Loans from related parties	-	1,215,000
Trade payables	2,819,323	7,303,161
Provisions	-	7,214,751
Total financial liabilities	**6,385,777**	**15,732,912**

The main risks arising from the Company'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 Company. Financial assets which are potentially subject to concentration of credit risk consist principally of trade and other receivables and cash and cash equivalents reduced by the amount of petty cash.

The maximum exposure to credit risk at December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Trade receivables	2,341,129	13,429,456
Restricted cash	6,830,119	7,214,751
Cash and cash equivalents	1,580,493	97,698
Total	**10,751,741**	**20,741,905**

The Company has recognised an expected credit loss of AZN 31,002 (2017: AZN 81,025) in respect to its trade receivables. The Company has experienced expected credit loss of AZN 86,732 (2017: nil) and has experienced expected credit loss of AZN 29,540 (2017: nil) in respect of its restricted cash and cash and cash equivalents, respectively.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the director, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. The undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

December 31, 2018	Carrying amount	Contractual cash flows less than 12 months
Non-derivative financial liabilities		
Trade payables	2,819,323	2,819,323
Bank loans	3,566,454	3,566,454
Total non-derivative financial liabilities	**6,385,777**	**6,385,777**

December 31, 2017	Carrying amount	Contractual cash flows less than 12 months
Non-derivative financial liabilities		
Loans from related parties	1,215,000	1,215,000
Trade payables	7,303,161	7,303,161
Provisions	7,214,751	-
Total non-derivative financial liabilities	**15,732,912**	**8,518,161**

Currency risk

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

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

USD-denominated	December 31, 2018	December 31, 2017
Cash and cash equivalents	601,995	-
Restricted cash	6,830,119	7,214,751
Bank Loans	(3,566,654)	-
Net exposure	**3,865,460**	**7,278,289**

The following exchange rates applied at year end:

	December 31, 2018	December 31, 2017
AZN / 1 USD	1.70	1.7001

Sensitivity Analysis

A weakening of the AZN, as indicated below, against USD at December 31, 2018 and 2017 would have decreased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit or loss	
	December 31, 2018	December 31, 2017
AZN / USD 10% weakening (2017: 10% weakening)	386,546	727,829

A strengthening of the AZN against USD would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

17. CONTINGENCIES

Business environment

Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future stability of the Azerbaijan economy is heavily influenced by reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

With the improvement of oil prices in 2017 and 2018, the economy is showing signs of recovery. Although, foreign currency reserves of the country is increasing and contraction in the economy decreasing, there still remains uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Company's future results and financial position and business prospects.

The Company's management is monitoring developments in the current environment and taking measures, considered necessary in order to support the sustainability and development of the Company's business in the foreseeable future.

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 Company 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 Company's property or relating to Company's operations. The Company may be expected to compensate significant damages and losses from accidents with Company's property or relating to Company's operations.

Legal proceedings

From time to time and in the normal course of business, claims against the Company 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 financial statements.

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 Company's business activities, was to be challenged by the tax authorities, the Company 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 Company believes that it has accrued all tax amounts due and therefore no allowance has been made in the 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.

18. RELATED PARTY TRANSACTIONS

Details of balances and transactions between the Company and related parties are disclosed below:

	December 31, 2018		December 31, 2017	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Loan from Related parties	-	-	1,215,000	1,215,000
Trade and other payables	2,202,450	3,634,041	962,433	7,980,603

	Year ended December 31, 2018		Year ended December 31, 2017	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
General and administrative expenses	1,280,813	4,269,743	1,228,244	4,530,758

	Year ended December 31, 2018	Year ended December 31, 2017
Key management personnel compensation	267,007	272,870

19. EVENTS AFTER THE REPORTING PERIOD

Credit line agreement

On May 27, 2019, the Prokon LLC received 7.8 million AZN from "Pasha Bank" OJSC based on credit line agreement signed on August 24, 2018. New credit line bears annual interest of 9 per cent and matures on May 27, 2020.

Performance guarantee

On August 23, 2019, Prokon LLC entered into guarantee agreement with IBAR OJSC (Guarantor) for performing obligations regarding Uniper Technologies GmBH (Beneficiary). The amount of the maximum guarantee amount of contract is 554,000 EUR and involves obligation of construction and erection of works in a power plant in Sumgayit, Azerbaijan. The end date of performance guarantee contract is July 8, 2020.