

**State Oil Company of the Azerbaijan Republic**

**Consolidated financial statements prepared under  
International Financial Reporting Standards**

*31 December 2019*

## Contents

### Independent auditor's report

### Consolidated financial statements

Consolidated statement of financial position .....	1
Consolidated statement of profit or loss and other comprehensive income.....	3
Consolidated statement of changes in equity .....	4
Consolidated statement of cash flows .....	5

### Notes to the consolidated financial statements

1. The Group and its operations .....	6
2. Significant accounting policies .....	6
3. Critical accounting estimates and judgments .....	27
4. Adoption of new or revised standards and interpretations and new accounting pronouncements .....	31
5. Segment information .....	38
6. Financial risk management.....	45
7. Balances and transactions with related parties .....	53
8. Cash and cash equivalents and short-term deposits .....	57
9. Restricted cash.....	57
10. Trade and other receivables .....	57
11. Inventories .....	58
12. Other current assets and other current financial assets .....	58
13. Other non-current assets .....	59
14. Other non-current financial assets.....	59
15. Property, plant and equipment .....	60
16. Intangible assets other than goodwill .....	61
17. Investments in joint ventures .....	62
18. Investments in associates .....	66
19. Trade and other payables.....	68
20. Borrowings .....	69
21. Taxes payable .....	73
22. Asset retirement obligations .....	73
23. Other provisions for liabilities and charges.....	74
24. Deferred income .....	75
25. Other current and non-current liabilities .....	76
26. Deferred acquisition consideration payable .....	77
27. Charter capital, additional paid-in capital, retained earnings and gain on sale of subsidiary share .....	77
28. Analysis of revenue by categories .....	78
29. Analysis of expenses by nature.....	78
30. Other operating income .....	79
31. Interest revenue calculated using effective interest rate and other finance income .....	79
32. Finance costs.....	79
33. Income taxes .....	79
34. Advances received for sale of interest in PSA .....	83
35. Put option liabilities.....	83
36. Significant non-cash investing and financing activities.....	83
37. Changes in liabilities arising from financing activities.....	84
38. Contingences, commitments and operating risks.....	85
39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life .....	92
40. Material partly-owned subsidiaries .....	99
41. Events after reporting date .....	103



Ernst & Young Holdings (CIS) B.V.  
Port Baku Towers Business Centre  
South Tower, 9th floor,  
153, Neftçilər Ave.  
Baku, AZ1010, Azerbaijan  
Tel: +994 (12) 490 70 20  
Fax: +994 (12) 490 70 17  
www.ey.com/az

Ernst & Yanq Holdings (SiAyEs) Bi.Vi.  
Port Baku Taueri Biznes Mərkəzi  
Cənub Qülləsi, 9-cu mərtəbə  
Neftçilər prospekti, 153  
Bakı, AZ1010, Azərbaycan  
Tel: +994 (12) 490 70 20  
Faks: +994 (12) 490 70 17

## Independent auditor's report

To the Management and Management Board of the  
State Oil Company of the Azerbaijan Republic

### **Opinion**

We have audited the accompanying consolidated financial statements of the State Oil Company of the Azerbaijan Republic and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for opinion**

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

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**Key audit matter**

**How our audit addressed the key audit matter**

***Impairment of oil and gas assets***

We considered this matter to be one of most significance in the audit due to the significance of the Group's oil and gas assets, the high level of subjectivity in respect of assumptions underlying impairment analysis and significant judgements made by management. In addition, volatility in oil prices over the last few years impacts the Group's operations and cash flows and triggers potential impairment.

The key assumptions used by management and results of impairment tests are disclosed in Notes 3, 15 and 29 to the consolidated financial statements.

We evaluated the change in risk profile of the Group's assets and assessed impairment indicators. We involved our internal valuation experts and compared assumptions used in impairment testing such as oil prices forecast, reserves and resources volumes and discount rates with available external data. We checked mathematical accuracy of impairment models and sensitivity analysis. We compared calculated amounts of impairment charge and unsuccessful exploration assets write offs to amounts recorded in the Group's accounting records. We analyzed significant judgement made by management. We analyzed disclosure of impairment in the notes to the consolidated financial statements.

***Estimation of oil and gas reserves***

The estimate of oil and gas reserves has a significant impact on the impairment test and depreciation and decommissioning provisions. The Group involved internationally recognized independent reserves engineers to evaluate its oil and gas reserves.

Information on oil and gas reserves is disclosed in Note 3 to the consolidated financial statements.

We compared the assumptions used by the reserve engineers with the Group's approved budget and historical data. We assessed the underlying assumptions and compared estimates of reserves and resources provided by reserves engineers to the amounts included in the calculation of impairment, depreciation, depletion and amortization and decommissioning provisions. We analyzed disclosure of oil and gas reserves in the notes to the consolidated financial statements.

***Other information included in the Group's 2019 Annual Report***

Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### ***Responsibilities of management and the Management Board for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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.

The Management Board is 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 skepticism 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 the Management Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the Management Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Nargiz Karimova.

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

19 June 2020

Baku, Azerbaijan

**Consolidated statement of financial position***(Amounts presented are in millions of Azerbaijani Manats)*

	Note	31 December 2019	31 December 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	7,084	6,640
Restricted cash	9	187	276
Deposits	8	106	151
Trade and other receivables	10	8,919	8,395
Inventories	11	2,067	2,979
Other current financial assets	12	755	851
Other current assets	12	49	-
<b>Total current assets</b>		<b>19,167</b>	<b>19,292</b>
<b>Non-current assets</b>			
Property, plant and equipment	15	31,548	28,259
Goodwill	39	317	301
Intangible assets other than goodwill	16	1,055	714
Investments in joint ventures	17	5,398	5,301
Investments in associates	18	4,208	4,359
Right-of-use assets	4	599	-
Deferred tax assets	33	762	700
Other non-current financial assets	14	1,421	1,323
Other non-current assets	13	900	1,887
<b>Total non-current assets</b>		<b>46,208</b>	<b>42,844</b>
<b>Total assets</b>		<b>65,375</b>	<b>62,136</b>
<b>Equity</b>			
Charter capital	27	4,323	4,147
Additional paid-in capital	27	5,576	5,299
Retained earnings		7,576	7,659
Other capital reserves		(83)	(51)
Put option on company's shares		(1,310)	(1,310)
Gain on sale / purchase of subsidiary share	27	1,127	1,168
Cumulative translation differences		5,932	5,900
<b>Equity attributable to equity holders of the Group</b>		<b>23,141</b>	<b>22,812</b>
Non-controlling interests		1,187	1,132
<b>Total equity</b>		<b>24,328</b>	<b>23,944</b>

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

**Consolidated statement of financial position (continued)***(Amounts presented are in millions of Azerbaijani Manats)*

	Note	31 December 2019	31 December 2018
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	19	11,334	11,780
Short-term and current portion of long-term borrowings	20	4,173	4,013
Taxes payable	21	572	690
Contract liabilities	19	525	305
Deferred acquisition consideration payable	26	157	157
Current lease liabilities	4	123	-
Other provisions for liabilities and charges	23	75	56
Deferred income	24	-	11
Other current liabilities	25	324	355
<b>Total current liabilities</b>		<b>17,283</b>	<b>17,367</b>
<b>Non-current liabilities</b>			
Long-term borrowings	20	11,369	9,659
Advances received for the sale of interest in PSA	34	4,313	4,313
Put option liabilities	35	2,718	2,713
Deferred tax liabilities	33	1,627	1,412
Asset retirement obligations	22	1,545	1,079
Non-current lease liabilities	4	508	-
Deferred acquisition consideration payable	26	570	529
Other provisions for liabilities and charges	23	163	152
Deferred income	24	70	58
Other non-current liabilities	25	881	910
<b>Total non-current liabilities</b>		<b>23,764</b>	<b>20,825</b>
<b>Total liabilities</b>		<b>41,047</b>	<b>38,192</b>
<b>Total liabilities and equity</b>		<b>65,375</b>	<b>62,136</b>

Approved for issue and signed on behalf of the Group on 19 June 2020.

Mr. Rovnag Abdullayev  
President

  
Mr. Suleyman Gasymov  
Vice-President for Economic Affairs



**Consolidated statement of profit or loss and other comprehensive income***(Amounts presented are in millions of Azerbaijani Manats)*

	Note	2019	2018 (Restated*)
Revenue	28	83,752	107,762
Cost of sales	29	(77,960)	(102,032)
<b>Gross profit</b>		<b>5,792</b>	<b>5,730</b>
Distribution expenses	29	(1,240)	(1,196)
General and administrative expenses	29	(1,462)	(1,348)
Loss on disposal of property, plant and equipment and intangible assets		(10)	(15)
Social expenses		(118)	(105)
Exploration and evaluation expenses	29	(65)	(69)
Expected Credit Loss (ECL)	29	(49)	85
Other operating expenses	29	(605)	(403)
Other operating income	30	341	916
<b>Operating profit</b>		<b>2,584</b>	<b>3,595</b>
Interest revenue calculated using effective interest method	31	163	184
Other finance income	31	47	28
Finance costs	32	(1,160)	(1,126)
Foreign exchange gains and losses, net		(315)	(698)
Share of result of joint ventures	17	14	213
Share of result of associates	18	(5)	24
<b>Profit before income tax</b>		<b>1,328</b>	<b>2,220</b>
Income tax expenses	33	(677)	(996)
<b>Profit for the year</b>		<b>651</b>	<b>1,224</b>
<b>Other comprehensive loss</b>			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods – currency translation differences		(90)	(241)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods – loss on investments at FVOCI		(22)	(74)
<b>Other comprehensive loss for the year</b>		<b>(112)</b>	<b>(315)</b>
<b>Total comprehensive income for the year</b>		<b>539</b>	<b>909</b>
<b>Profit is attributable to:</b>			
Equity holders of the Group		602	1,109
Non-controlling interests		49	115
		<b>651</b>	<b>1,224</b>
<b>Total comprehensive (loss)/income attributable to:</b>			
Equity holders of the Group		599	1,160
Non-controlling interests		(60)	(251)
		<b>539</b>	<b>909</b>

\* Certain amounts shown here do not correspond to the 2018 Financial Statements and reflect restatement made as detailed in Note 2.

**Consolidated statement of changes in equity***(Amounts presented are in millions of Azerbaijani Manats)*

Note	Attributable to the equity holders of the parent									
	Charter capital	Additional paid-in capital	Put option on company's shares	Gain on sale / (purchase) of subsidiary share	Other capital reserves	Retained earnings	Currency translation differences	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2018</b>	3,036	4,541	(1,310)	1,181	(6)	7,235	5,806	20,483	1,368	21,851
Profit for the year	-	-	-	-	-	1,109	-	1,109	115	1,224
Other comprehensive loss	-	-	-	-	(45)	-	96	51	(366)	(315)
<b>Total comprehensive income for 2018</b>	-	-	-	-	(45)	1,109	96	1,160	(251)	909
Acquisition of non-controlling interest in subsidiary	-	-	-	(14)	-	-	-	(14)	14	-
Loss on sale of shares to non-controlling shareholders	-	-	-	1	-	-	(2)	(1)	24	23
Additional paid-in capital	-	1,869	-	-	-	-	-	1,869	-	1,869
Contribution in charter capital of subsidiaries by non-controlling shareholder	-	-	-	-	-	-	-	-	98	98
Increase in charter capital	1,111	(1,111)	-	-	-	-	-	-	-	-
Distribution to the Government	27	-	-	-	-	(685)	-	(685)	-	(685)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(121)	(121)
<b>Balance at 31 December 2018</b>	<b>4,147</b>	<b>5,299</b>	<b>(1,310)</b>	<b>1,168</b>	<b>(51)</b>	<b>7,659</b>	<b>5,900</b>	<b>22,812</b>	<b>1,132</b>	<b>23,944</b>
Profit for the year	-	-	-	-	-	602	-	602	49	651
Other comprehensive loss	-	-	-	-	(32)	-	29	(3)	(109)	(112)
<b>Total comprehensive income for 2019</b>	-	-	-	-	(32)	602	29	599	(60)	539
Acquisition of non-controlling interest	27	-	-	(41)	-	-	3	(38)	38	-
Additional paid-in capital	27	453	-	-	-	-	-	453	-	453
Increase in charter capital	27	(176)	-	-	-	-	-	-	-	-
Non-controlling interests arising on a business combination	39	-	-	-	-	-	-	-	80	80
Contribution in charter capital of subsidiaries by non-controlling shareholder	-	-	-	-	-	-	-	-	8	8
Distribution to the Government	27	-	-	-	-	(685)	-	(685)	-	(685)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(11)	(11)
<b>Balance at 31 December 2019</b>	<b>4,323</b>	<b>5,576</b>	<b>(1,310)</b>	<b>1,127</b>	<b>(83)</b>	<b>7,576</b>	<b>5,932</b>	<b>23,141</b>	<b>1,187</b>	<b>24,328</b>

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

**Consolidated statement of cash flows***(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)*

	Note	2019	2018
<b>Cash flows from operating activities</b>			
Profit before income tax		1,328	2,220
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	29	1,603	1,391
Depreciation of right-of-use assets	4	89	-
Amortisation of intangible assets	16	61	43
Impairment of property, plant and equipment	15	286	161
ECL	29	49	(25)
Loss on disposals of property, plant and equipment and intangible assets		10	15
Other Finance Income	31	(47)	(28)
Interest revenue calculated using effective interest method	31	(163)	(184)
Finance costs	32	1,160	1,126
Foreign exchange rate differences		208	1,002
Share of result of associates and joint ventures	17, 18	(9)	(237)
Bargain purchase gain	39	(19)	-
Other non-cash transactions		66	(601)
<b>Operating cash flows before working capital changes</b>		<b>4,622</b>	<b>4,883</b>
(Increase)/decrease in trade and other receivables		(527)	1,027
Decrease in inventories		670	1,700
Decrease in trade and other payables and contract liabilities		(417)	(402)
Change in other assets and liabilities		205	(5)
Change in provisions		85	(19)
<b>Cash generated from operations</b>		<b>4,638</b>	<b>7,184</b>
Income taxes paid		(598)	(590)
Interest paid		(973)	(885)
<b>Net cash flows from operating activities</b>		<b>3,067</b>	<b>5,709</b>
<b>Cash flows from investing activities</b>			
Acquisitions of subsidiary (net of cash acquired)	39	(215)	(1)
Additional contribution in associates and joint ventures		(103)	(201)
Purchase of property, plant and equipment		(3,946)	(4,672)
Purchase of intangible assets		(44)	(32)
Placement of deposits		(138)	(26)
Withdrawal of deposits		109	134
Interest received		107	171
Dividends received from associates and joint ventures		148	190
Proceeds from disposal of associates and JVs		9	-
Proceeds from sale of property, plant and equipment		36	112
Advances received for sale of interest in PSA		-	237
Proceeds from loans provided to joint ventures/associates		-	170
Loan issued to related parties		(29)	(34)
Proceeds from sale of disposal group		-	80
Purchase of financial instrument		(33)	(161)
<b>Net cash flows used in investing activities</b>		<b>(4,099)</b>	<b>(4,033)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		6,744	5,601
Repayment of borrowings		(4,869)	(6,634)
Contribution to subsidiary by non-controlling shareholder		8	98
Proceeds from sale of non-controlling interests	27	-	23
Payment of lease liabilities	4	(59)	-
Increase in charter capital and additional paid-in capital	27	453	1,190
Dividends paid to non-controlling interests		-	(122)
Distribution to the Government	27	(685)	(680)
Contribution from the Government		-	578
<b>Net cash flows from financing activities</b>		<b>1,592</b>	<b>54</b>
Net foreign exchange difference on cash and cash equivalents		(120)	(290)
ECL reversal / (ECL) for cash and cash equivalents	8	4	(17)
<b>Net increase in cash and cash equivalents</b>		<b>444</b>	<b>1,423</b>
Cash and cash equivalents at the beginning of the year	8	6,640	5,217
<b>Cash and cash equivalents at the end of the year</b>	8	<b>7,084</b>	<b>6,640</b>

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

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 1. The Group and its operations

The State Oil Company of the Azerbaijan Republic ("SOCAR") was established by the Presidential Decree on 13 September 1992 in accordance with Azerbaijani legislation and is domiciled in the Azerbaijan Republic. SOCAR is involved in upstream, midstream and downstream operations. SOCAR's main functions pertain to the extraction, refining, transportation of oil, gas and gas condensates, and sale of gas and oil and gas products. SOCAR is 100 per cent owned by the Government of the Azerbaijan Republic (the "Government").

SOCAR's registered address is 121 Heydar Aliyev Avenue, AZ 1029 Baku, Azerbaijan Republic.

### Information about subsidiaries

The consolidated financial statements of the Group include the following material subsidiaries:

Name	Principal activities	Country of incorporation	% equity interest	
			2019	2018
SOCAR Turkey Enerji A.Ş.	Refinery	Turkey	100%	100%
Azerbaijan (ACG) Ltd	Oil production	Cayman Islands	100%	100%
Azerbaijan (Shah Deniz) Ltd	Gas production	Cayman Islands	100%	100%
Caspian Drilling Company (CDC)	Drilling operations	Azerbaijan	92%	92%
SOCAR Energy Georgia LLC	Sales and Distribution	Georgia	76%	76%
SOCAR Overseas LLC	Sales and Distribution	UAE	100%	100%
SOCAR Trading Holding	Sales and Distribution	Malta	100%	100%
Azerbaijan (BTC) Ltd	Sales and Distribution	Cayman Islands	100%	100%
Cooperative Menkent U.A.	Sales and Distribution	Netherlands	100%	100%
SOCAR Energy Holdings AG	Sales and Distribution	Switzerland	100%	100%
SOCAR Energy Ukraine	Sales and Distribution	Ukraine	100%	100%
Azerbaijan (SCP) LTD	Sales and Distribution	Cayman Islands	100%	100%
SOCAR Petroleum CJSC	Sales and Distribution	Azerbaijan	100%	100%
Baku Shipyard LLC	Construction	Azerbaijan	87%	70%
SOCAR Polymer Investments LLC	Chemicals production	Azerbaijan	57%	52%
BOS Shelf LLC	Construction	Azerbaijan	90%	90%
Gacru Middle East Investment Holding LTD	Construction	UAE	100%	-

On 17 June 2019, SOCAR Turkey Enerji A.Ş., the Group's subsidiary acquired 80 per cent shares of Bursagaz and Kaysrigaz and 100 per cent shares of Milenicom, EWE Enerji, Enervis and Kay Solar Projects (Note 39).

## 2. Significant accounting policies

### 2.1 Basis of preparation

These consolidated financial statements of SOCAR and its subsidiaries, associates, joint ventures and joint operations (collectively referred to as "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019.

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

## **2. Significant accounting policies (continued)**

### **2.2 Basis of consolidation (continued)**

Subsidiaries are all entities (including special-purpose entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ▶ Exposure, or rights, to variable returns from its involvement with the investee; and
- ▶ The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements;
- ▶ The Group's voting rights and potential voting rights.

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value. Total comprehensive income within a subsidiary is attributed to the non-controlling interests even if that results in a deficit balance.

### **2.3 Summary of significant accounting policies**

#### **Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

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

## **2. Significant accounting policies (continued)**

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

#### *Transactions with non-controlling interests*

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Group.

#### *Business combinations with entities under common control*

The Group applies acquisition method of accounting for business combinations with entities under the common control.

#### **Investments in associates and joint ventures**

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.

A joint venture ("JV") is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. Any gain or loss on sale of share that was recognized directly in the equity of the associate or joint venture is reflected as a gain or loss within the Group share of associate's or joint venture's profit or loss. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment charge on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

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

## **2. Significant accounting policies (continued)**

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

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### **Investments in Production Sharing Agreements ("PSAs")**

Certain of the Group's upstream activities are governed by the PSAs. According to the terms of PSAs, the Group owns the portion of project's assets and liable for its portion of project's liabilities. At the same time the Group is entitled to its portion of expenses incurred and revenues earned by the whole project. Therefore, the Group accounts for its investment in PSA's by recognizing the portion of underlying assets, liabilities, expenses incurred and income earned by the projects using undivided interest method.

PSA is the method to execute exploitation of mineral resources by taking advantage of the expertise of a commercial oil and gas entity. The Government retains title to the mineral resources (whatever the quantity that is ultimately extracted) and often the legal title to all fixed assets constructed to exploit the resources. The Government takes a percentage share of the output which may be delivered in product or paid in cash under an agreed pricing formula. The contracting parties may only be entitled to recover specified costs plus an agreed profit margin. It may have the right to extract resources over a specified period of time. Operating company is a legal entity created by one or more contracting parties to operate PSA.

As a contracting party to various PSAs the Group evaluates and accounts for the PSAs in accordance with the substance of the arrangement. It records only its own share of oil and gas under a PSA as revenue. Neither revenue nor cost is recorded by the Group for the oil and gas extracted and sold on behalf of the Government. The Group acts as the Government's agent to extract, deliver or sell the oil and gas and remit the proceeds.

Costs that meet the recognition criteria as intangible or fixed assets in accordance with IAS 38 and IAS 16, respectively, are recognized where the entity is exposed to the majority of the economic risks and has access to the probable future economic benefits of the assets. Acquisition, development and exploration costs are accounted for in accordance with policies stated herein.

Assets subject to depreciation, depletion or amortization are expensed using the appropriate depletion or depreciation method stipulated by the present accounting policies over the shorter of the PSA validity period or the expected useful life of the related assets.

#### **Foreign currency translation**

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

The functional currencies of the Group's consolidated entities are the currencies of the primary economic environments in which the entities operate. The functional currency of SOCAR and its 23 business units and the Group's presentation currency is the national currency of the Azerbaijan Republic, AZN. However, US Dollar ("USD"), Swiss Franc ("CHF"), Georgian Lari ("GEL"), Ukrainian Hryvnia ("UAH") and Turkish Lira ("TRY") are considered the functional currency of the Group's certain subsidiaries, associates and joint ventures as majority of these investments' receivables, revenues, costs and debt liabilities are either priced, incurred, payable or otherwise measured in these currencies.

The transactions executed in foreign currencies are initially recorded in the functional currencies of respective Group entities by applying the appropriate rates of exchanges prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies other than functional currency of respective Group entity are translated into the functional currency of that entity at the appropriate exchange rates prevailing at the reporting date. Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are recognized in profit or loss.

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

## 2. Significant accounting policies (continued)

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The results and financial position of the Group entities which functional currency differ from the presentation currency of the Group and not already measured in the Group's presentation currency (functional currency of none of these entities is a currency of a hyperinflationary economy) are translated into the presentation currency of the Group as follows:

- (i) Assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each statement of profit or loss and other comprehensive income 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); and
- (iii) All resulting exchange differences are recognized as a separate component of equity – currency translation difference.

At 31 December 2019, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000, EUR 1 = AZN 1,9035, CHF 1 = AZN 1.7479, GEL 1 = AZN 0.5936, UAH 1 = AZN 0.0714, TRY 1 = AZN 0.2858, JPY 100 = AZN 1.5578 (31 December 2018: USD 1 = AZN 1,7000, EUR 1 = AZN 1,9468, CHF 1 = AZN 1.7258, GEL 1 = AZN 0.6367, UAH 1 = AZN 0.0617, TRY 1 = AZN 0.3212, JPY 100 = AZN 1.5366).

#### Financial instruments – measurement bases

##### *Fair value*

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

*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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

#### **Amortised cost**

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related statement of financial position.

*The effective interest rate method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

#### **Financial assets**

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

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### **Subsequent measurement**

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

- ▶ Financial assets at amortised cost (debt instruments);
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments);
- ▶ Financial assets at fair value through profit or loss.

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

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

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

The Group's financial assets at amortised cost includes current and deposit accounts as well as restricted accounts at several local and international banks, trade and loan receivables from third parties, loan receivables from associates and long-term deposit accounts classified as other non-current financial assets.

#### *Financial assets at fair value through OCI (debt instruments)*

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment charge or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon de-recognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes group of trade and other receivables that are held for both collecting contractual cash flows and selling to manage short-term liquidity needs.

#### *Financial assets designated at fair value through OCI (equity instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

#### ***Derecognition***

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- ▶ Critical accounting estimates and judgments (Note 3);
- ▶ Debt instruments at fair value through OCI and trade and other receivables (Note 10).

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

## **2. Significant accounting policies (continued)**

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

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For financial assets other than trade receivables and contract assets, the Group applies general approach in calculating ECLs.

For trade and other receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's debt instruments at fair value through OCI solely comprise trade and other receivables that are held for both collecting contractual cash flows and selling to manage its everyday liquidity needs. For debt instruments at fair value through OCI, the Group applies the same methodology that is applied to financial assets measured at amortized cost.

#### **Financial liabilities**

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

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

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

The measurement of financial liabilities depends on their classification, as described below:

##### ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability at fair value through profit or loss.

#### *Loans, borrowings and payables*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings and payables are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. The EIR amortisation is included as finance costs in the statement of profit or loss.

#### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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

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

#### **Financial guarantee contracts**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently the liability is measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with IFRS 15.

#### **Derivative financial instruments**

Oil and Gas derivative financial instruments, including paper and physical contracts, are initially measured at fair value on the date on which a derivative contract is entered into and subsequently accounted for at fair value through profit or loss. Derivatives are recognized as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

#### **Restricted cash**

Restricted cash is presented separately from cash and cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of cash flow statement.

#### **Trade payables**

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

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

#### Borrowings

All borrowings are initially recognized at fair value of the proceeds received net of issue costs associated with the borrowing. Borrowings are carried at amortised cost using the effective interest rate method.

Interest costs on borrowings to finance the construction of qualifying property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

#### Property, plant and equipment

The initial cost of an asset purchased comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and, for qualifying assets, borrowing costs. In the comparative period, the assets held under finance lease are also included within property, plant and equipment. Non-recoverable value-added tax related with acquisition of property, plant and equipment is capitalized by the Group. Non-recoverable value-added tax related with operational activities is charged to profit or loss. Subsequently, property, plant and equipment are stated at cost as described below, less accumulated depreciation and provision for impairment, where required.

#### Exploration and evaluation costs

Exploration and evaluation costs are capitalised until the determination of reserves is evaluated. If a commercial discovery has not been achieved, these costs are charged to expense. Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

The Group accounts for exploration and evaluation activities, expensing exploration and evaluation costs until such time as the economic viability of producing the underlying resources is determined.

Exploration and evaluation costs related to resources determined to be not economically viable are expensed through operating expenses in the consolidated statement of profit or loss and other comprehensive income.

#### Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalised within tangible and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets (oil and gas properties).

The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, subject to depletion using unit-of-production method.

All minor repair and maintenance costs are expensed as incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment charge, if any, is recognized in the statement of profit or loss and other comprehensive income. An impairment charge recognized for an asset or cash generating unit in prior years is reversed if there are indicators that impairment charge may no longer exist or may have decreased.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are recognized in profit or loss.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

#### Depreciation

Property, plant and equipment related to oil and natural gas properties are depreciated using the unit-of-production method.

Depreciation of oil and gas assets is computed on a field-by-field basis over proved developed reserves. Shared oil and gas properties and equipment (e.g. internal delivery systems, processing units, etc.) are depleted over total proved reserves.

Land is not depreciated. Property, plant and equipment other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Assets under construction are not depreciated.

#### 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.

#### Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The cost of a right-of-use asset comprises:

- ▶ The amount of the initial measurement of the lease liability;
- ▶ Any lease payments made at or before the commencement date, less any lease incentives received;
- ▶ Any initial direct costs incurred by the lessee; and
- ▶ An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

A lessee recognizes dismantling, removal and restoration costs above as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies IAS 2 *Inventories* to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs are recognized and measured applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. 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. 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. Right-of-use assets are subject to the impairment requirements of IAS 36 *Impairment of Assets*.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

#### *Lease liabilities*

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- ▶ Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- ▶ Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- ▶ Amounts expected to be payable by the lessee under residual value guarantees;
- ▶ The exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- ▶ Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. When the lease liability is remeasured as described above, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Group 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 recognized as expense on a straight-line basis over the lease term.

#### *Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### **Goodwill**

Goodwill is initially measured at cost being, the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment charge.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

#### Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment charge. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

#### Development projects

Cost incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when it is probable that the project will be operational considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other expenditures on research and development activities are recognized as an expense in the period in which they incurred. When there is an impairment, the carrying values of the intangible assets are written down to their recoverable amounts. Intangible assets with indefinite useful lives are not amortized, however are tested for impairment annually.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

#### Corporate income taxes

Corporate income taxes have been provided for in the consolidated financial statements in accordance with the applicable legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognized in the profit or loss unless it relates to transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

## **2. Significant accounting policies (continued)**

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

Deferred income tax asset is provided on deductible temporary differences arising on investment in subsidiaries, joint ventures and associates, except where taxable profit will not be available against which the temporary differences can be utilized and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax liability is provided on taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items recognized outside profit or loss is recognized either in OCI or directly in equity.

Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of property, plant and equipment, as well as on temporary differences arising on right-of-use assets and lease liabilities.

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

Taxes, other than on income, are recorded within operating expenses.

#### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is assigned by the weighted average method. Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses (based on normal operating capacity).

#### **Government grants**

Grants from the Government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

#### **Asset retirement obligations**

Liabilities for asset retirement obligation costs are recognized when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for asset retirement may also crystallize during the period of operation of a facility through a change in legislation. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

The cost of property, plant and equipment is also adjusted for amounts of estimated liabilities for asset retirement obligations.

Any change in the present value of the obligation resulting from changes in estimates of the amounts or timing of future expenditures is reflected as an adjustment to the provision and the corresponding capitalized costs within property, plant and equipment. Changes in estimates of the amounts or timing of future expenditures to dismantle and remove fully depreciated plant or facility is recognized in the statement of profit or loss and other comprehensive income. Changes in the present value of the obligation resulting from unwinding of the discount are recognized as finance costs in the statement of profit or loss and other comprehensive income.

#### **Provisions for liabilities and charges**

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

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

## **2. Significant accounting policies (continued)**

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### **Distribution to the Government**

Distribution to the Government represent cash distributions or financing which the Group may be required to make to the state budget, various government agencies and projects administered by the Government based on the particular decisions of the Government. Such distributions are recorded as a reduction of equity. Distributions in the form of transfers of non-monetary assets are recognized at the carrying value of transferred assets.

#### **Contributions by the Government**

Contributions by the Government are made in the form of cash contributions; transfer of other state-owned entities or transfer of all or part of the Government's share in other entities. Transfer of the state-owned entities to the Group is recognized as contribution through equity statement in the amount being the fair value of the transferred entity.

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

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

##### *VAT payable*

VAT payable represents VAT related to sales that is payable to tax authorities upon recognition of sales to customers, net of VAT on purchases which have been settled at the reporting date. VAT related to sales which have not been settled at the reporting date (VAT deferral) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment charge is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT payable is maintained until the debtor is written off for tax purposes.

##### *VAT recoverable*

VAT recoverable relates to purchases which have not been settled at the reporting date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

In accordance with Shah Deniz, Absheron, ACG PSAs', Karabakh and Umid Babek Risk Service Agreements' (RSA) provisions, Azerbaijan Shah Deniz Limited ("AzSD"), SOCAR Absheron LLC, Azerbaijan ACG Limited ("AzACG"), SOCAR Karabakh LLC and Umid Babek Exploration Production Company ("UBEP") are charged with zero per cent VAT by tax authorities.

#### **Revenue from contracts with customers**

The Group is in the business of selling ranges of oil and oil products, petroleum products and natural gas as well as providing mainly construction services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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

## **2. Significant accounting policies (continued)**

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

Revenues from sales of crude oil are recognized normally when the oil is loaded into the oil tanker or other transportation facilities. Revenues from sales of petroleum products are recognized when the products are shipped. Revenue from sales of natural gas are recorded on the basis of regular meter readings (monitored on a monthly basis) and estimates of customer usage from the last meter reading to the end of the reporting period. Natural gas prices and gas transportation tariffs to the final consumers in the Azerbaijan Republic are established by the Tariff Council of the Azerbaijan Republic. Revenues from construction activities are recognized either at the point of time or overtime basis depending on terms of the contracts with customers.

Interest income is recognized on a time-proportion basis using the effective interest rate method.

#### **Variable consideration**

If the consideration promised in a contract includes a variable amount, the Group shall estimate the amount of consideration to which the Group will be entitled in exchange for transferring the promised goods or services to a customer.

The Group is required to estimate an amount of variable consideration by using either of the following methods, depending on which method the Group expects to better predict the amount of consideration to which it will be entitled:

- ▶ The expected value – the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if the Group has a large number of contracts with similar characteristics.
- ▶ The most likely amount – the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (e.g. the Group either achieves a performance bonus or does not).

The Group selects the method that is best suited, based on the specific facts and circumstances of the contract.

The Group applies the selected method consistently to each type of variable consideration throughout the contract term and updates the estimated variable consideration at the end of each reporting period. It may also be appropriate for the Group to use different methods (i.e. expected value or most likely amount) for estimating different types of variable consideration within a single contract.

#### **Rights of return**

Certain contracts provide a customer with a right to return the goods within a specified period. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognizes a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

#### **Volume rebates**

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognizes Contract liabilities for the expected future rebates.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

#### Significant financing component

For some transactions, the receipt of the consideration does not match the timing of the transfer of goods or services to the customer (e.g. the consideration is prepaid or is paid after the services are provided). When the customer pays in arrears, the Group is effectively providing financing to the customer. Conversely, when the customer pays in advance, the Group has effectively received financing from the customer.

IFRS 15 states that in determining the transaction price, the Group shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

#### Contract balances

##### *Contract assets*

The Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the Group's future performance). The Group's contract assets are presented within Other current assets line.

##### *Contract liabilities*

The Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or the amount is due) from the customer.

#### Assets and liabilities arising from rights of return

##### *Right of return asset*

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

##### *Refund liabilities*

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

#### Principal versus agent considerations

The determination of whether the Group is acting as a principal or an agent affects the amount of revenue the Group recognizes. The Group is a principal (and, therefore, records revenue on a gross basis) if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent (and, therefore, records as revenue the net amount that it retains for its agency services) if its role is to arrange for another entity to provide the goods or services.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

#### Accounting for underlift and overlift positions

The Group has shareholding interests in the joint operations. The Group may be in the overlift and underlift position in the mentioned joint arrangements. The Group is in the overlift position, when the Group lifted and sold to a customer more product than its proportionate entitlement based on its share in the joint operation. The Group is in the underlift position, when the Group lifted and sold less product than its proportionate entitlement based on its share in the joint operation.

The Group recognizes revenue from contracts with customers under IFRS 15 based on its actual sales to customers in that period. No adjustments are recorded in revenue to account for any variance between the actual share of production volumes sold to date and the share of production which the Group has been entitled to sell to date.

The Group adjusts production costs to align volumes for which production costs are recognized with volumes sold (for which revenue has been recognized in accordance with IFRS 15).

The Group applies the physical settlement. In case of physical settlement:

- ▶ An overlift liability is recorded in accordance with the provisions under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The overlift liability is recorded at cost.
- ▶ An underlift asset gives the Group the right to receive a quantity of product from another participant. This right is equivalent to a prepaid forward commodity purchase or represents a right to additional physical inventory and therefore, IAS 2 *Inventories* is applied. The underlift asset is measured at the lower of cost or net realisable value.

#### Employee benefits

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

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The Group reports separate information about an operating segment that meets any of the following quantitative thresholds:

- ▶ Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- ▶ The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss.
- ▶ Its assets are 10 per cent or more of the combined assets of all operating segments.

No operating segments have been aggregated to form the above reportable operating segments.

#### Related parties

Related parties are defined in IAS 24 *Related Party Disclosures*.

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of oil and gas to customers in the Azerbaijan Republic at government-controlled prices. Transactions with the state include taxes which are detailed in Note 21.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

#### Carried interest arrangements

A carried interest arrangement where the Group participate as carried party is an agreement under which the carrying party agrees to pay for a portion or all of the pre-production costs of the carried party on a project in which both parties own participating interest. If the project is unsuccessful then the carrying party will not be reimbursed for the costs that it has incurred on behalf of the carried party. If the project is successful then the carrying party will be reimbursed either in cash out of proceeds of the share of production attributable to the carried party, or by receiving a disproportionately high share of the production until the carried costs are fully recovered.

Depending on the terms of the carried interest agreements the Group recognizes them either as financing-type arrangement or purchase / sale-type arrangement.

The finance-type arrangements presume that carrying party provides funding to the carried party and receives a lender's return on the funds provided, while the right to additional production acts as a security that underpins the arrangement.

In the purchase/sale-type arrangement, the carried party effectively sells an interest or a partial interest in a project to the carrying party. The carrying party will be required to fund the project in exchange for an increased share of any proceeds if the project succeeds, while the carried party retains a much reduced share of any proceeds. The Group does not have any purchase / sale-type arrangement recognized in these consolidated financial statements.

During exploration stage of projects when the outcome of projects and probability of the carrying party to recover costs incurred on behalf of the carried party are not certain the Group does not recognize any carry related transactions and balances in the consolidated financial statements.

#### Acquisition of an entity that is not a business

When the Group acquires an entity that is not a business, it allocates the cost of acquisition between the individual identifiable assets and liabilities of the acquired entity as following:

- ▶ For identifiable asset and liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS Standard;
- ▶ The entity deducts from the transaction price of the acquired entity the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

#### Step-acquisition of subsidiary that is not a business

Step-acquisition of subsidiary which has been previously accounted for as investment in associates and joint ventures ("the investee") are recognized in the amount being the carrying value under the equity method related to the original interest in the investee plus cost of additional investments made by the Group in order to obtain control over the investee ("deemed cost"). Upon obtaining control over the investee it becomes subsidiary of the Group and deemed cost is allocated to the individual identifiable assets and liabilities of the subsidiary applying the same approach used for acquisition of an entity that is not a business.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

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

#### **Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations**

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribution will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for sale.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution. Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- ▶ Represents a separate major line of business or geographical area of operations;
- ▶ Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- ▶ Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. All notes to the consolidated financial statements include amounts for continuing operations.

### 2.4 Changes in accounting policies and disclosures

#### *Presentation of realized and unrealized fair value gains and losses on paper and physical derivative contracts*

Starting from 1 January 2019, the Group decided to change its accounting policy on presentation of realized/unrealized gains or losses on paper derivatives and unrealized gains or losses on physical contracts that are under scope of IFRS 9 and recognize net results within Cost of Sales. Under previous policy all realized/unrealized gains on paper derivatives and unrealized gains on physical contracts were recognized within Revenue, while realized/unrealized losses on paper derivatives and unrealized losses on physical contracts were presented within Cost of Sales. The Group believes that such policy change results in more appropriate presentation, since grossing Revenue and Cost of Sales up for fair value changes will not reflect economic substance of underlying transactions. Rather, showing net results from trading activities will give more relevant information for users of financial statements and enhance comparability with other companies in the industry.

#### **Restatement**

The restatement made below represents retrospective application of change in accounting policy of the Group related to presentation of realized and unrealized gains and losses arising from the change in fair values of derivative financial instruments recognized through profit or loss. The comparative information in the consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2019 was restated according to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosure*.



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 2. Significant accounting policies (continued)

### 2.4 Changes in accounting policies and disclosures (continued)

Consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2018:

	As previously reported	Restatement	As restated
Revenue	111,198	(3,436)	107,762
Cost of sales	(105,468)	3,436	(102,032)
<b>Gross profit</b>	<b>5,730</b>	<b>-</b>	<b>5,730</b>

## 3. Critical accounting estimates and judgments

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

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

### Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. Changes in proved oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation charges in the statement of profit or loss and other comprehensive income.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision.

Accordingly, financial and accounting measures (such as depletion and amortization charges and provision for asset retirement obligations) that are based on proved developed or proved reserves are also subject to change. Proved reserves are estimated by reference to available reservoir and well information. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are developed and being depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 3. Critical accounting estimates and judgments (continued)

#### Estimation of oil and gas reserves (continued)

Proved reserves of SOCAR were based on report as of 30 June 2019, which was adjusted for production during second half of the year. The report was prepared by independent reservoir engineers in accordance with Petroleum Resources Management System rules. For certain assets proved reserves are based on estimation of internal geologists.

#### Asset retirement obligations

Management makes provision in respect of the Group' legal and constructive obligations for the future costs of decommissioning oil and gas production and storage facilities, pipelines and related support equipment and site restoration based on the estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation. These costs are expected to be incurred over the useful life of the fields and properties ranging between 8 and 63 years from the reporting date.

The Group assesses its asset retirement obligation liabilities in accordance with the guidelines of International Financial Reporting Interpretations Committee ("IFRIC") 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate asset retirement liabilities may differ from the recorded amounts. Considering subjectivity of these provisions, there is uncertainty regarding both the amount and estimated timing of incurring such costs. The key assumptions used to measure the amount of the estimated asset retirement obligations and sensitivity analysis, are disclosed in Note 22.

#### Environmental obligations

The Group records a provision in respect of constructive obligations related to costs of remediation of the damage historically caused to the natural environment primarily in the Absheron area both by the activities of the Group and its legacy operations in periods preceding the formation of the Group.

The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate liability for environmental remediation may differ from the recorded amounts.

Considering subjectivity of these provisions, there is uncertainty regarding both the amount and estimated timing of incurring such costs. The key assumptions used to measure the amount of the estimated environmental obligations and sensitivity analysis, are disclosed in Note 23.

#### Disability provision

The Group records a provision in accordance with Azerbaijan Labour Code and has an obligation to pay compensation for employees damaged at work. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Considering subjectivity of these provisions, there is uncertainty regarding both the amount and estimated timing of incurring such costs. The key assumptions used to measure the amount of the estimated disability obligations and sensitivity analysis, are disclosed in Note 23.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 3. Critical accounting estimates and judgments (continued)

#### Useful lives and residual value of property, plant and equipment

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

The estimated useful lives of the Group's property, plant and equipment (other than oil and gas properties) are as follows:

Buildings and constructions	12 to 40 years
Plant and machinery	3 to 50 years
Vessels	25 years

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life unless scrap value is significant. The assets' residual values are reviewed, and adjusted if appropriate, at each reporting date.

#### Deferred income tax assets recognition

The net deferred tax assets represent income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

#### Impairment of non-financial assets

Management assesses whether there are any indicators of possible impairment of all non-financial assets each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. Goodwill and intangible assets with indefinite useful life are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a Discounted Cash Flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested.

#### Provision for expected credit losses of financial assets

##### Trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and contract 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).

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

### 3. Critical accounting estimates and judgments (continued)

#### Provision for expected credit losses of financial assets (continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the 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 analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 10.

#### *Other financial assets recognized at amortized cost*

The Group calculated ECL for financial assets that met the SPPI criterion other than trade and other receivables using the general approach as disclosed in Note 2. The assessment of ECLs is significant estimate considering that it is sensitive to changes in circumstances and conditions.

#### *Significant judgement in determining the lease term of contracts with renewal options*

The lessee and lessor need to determine whether a contract is a lease at inception of the lease. The inception date is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease. The underlying asset is the asset that is subject to a lease, for which the right to use that asset has been provided by a lessor to a lessee. The commencement date of the lease is the date on which the lessor makes an underlying asset available for use by a lessee.

The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

The Group determines the lease term as the non-cancellable period of the lease, together with both:

- ▶ Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- ▶ Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Purchase options are assessed in the same way as options to extend or terminate the lease. An option to purchase an underlying asset is economically similar to an option to extend the lease term for the remaining economic life of the underlying asset.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

#### *Incremental borrowing rate (IBR)*

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. The Group uses IBR at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 4. Adoption of new or revised standards and interpretations and new accounting pronouncements

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

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

##### IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

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

The Group applies IFRS 16 for annual periods beginning on or after 1 January 2019.

The transition provisions of IFRS 16 are applied at the initial date of application. For this purpose, the date of initial application is the beginning of the annual reporting period in which the Group first applies IFRS 16.

The Group applies the modified retrospective approach. When applying the modified retrospective approach, comparative figures are not restated and continues to be reported under IAS 17 *Leases*. The detailed accounting policy under IAS 17 *Leases* was disclosed in the Group's consolidated financial statements as of 31 December 2018 and thus, is not repeated here. The Group applies IFRS 16 to its leases retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. A lessee applies its elected transition approach consistently to all leases in which it is a lessee. The Group elected to use the transition practical expedient not to reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	1 January 2019
<b>Assets</b>	
Right-of-use assets	704
Property, plant and equipment (Note 15)	(23)
Prepayments	(10)
Intangible assets	(21)
<b>Total assets</b>	<b>650</b>
<b>Liabilities</b>	
Lease liabilities	685
Other non-current liabilities	(19)
Trade and other payables	(16)
<b>Total liabilities</b>	<b>650</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

##### IFRS 16 Leases (continued)

##### (a) Nature of the effect of adoption of IFRS 16

##### (i) Group as a lessee

The Group has lease contracts for various items of oil & gas properties and equipment, buildings and other category of assets. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Prepayments and Trade and other payables, respectively.

##### Leases previously classified as finance leases

The Group did not change the carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets (ROU) and lease liabilities were recognized at the amounts equal to the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

##### Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for all leases were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- ▶ Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- ▶ Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- ▶ Used a single discount rate to a portfolio of leases with reasonably similar characteristics.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

<b>Operating lease commitment at 31 December 2018</b>	<b>564</b>
Weighted average incremental borrowing rate (%)	5.78%
<b>Discounted using the incremental borrowing rate at 1 January 2019</b>	<b>490</b>
<b>Less:</b>	
Recognition exemption for:	
- commitments relating to short-term leases	(47)
- commitments relating to leases of low-value assets	-
- variable lease payments not based on an index or a rate	(35)
<b>Add:</b>	
Extension and termination options reasonably certain to be exercised	258
Commitments relating to leases previously classified as finance leases	19
<b>Lease liabilities recognized at 1 January 2019</b>	<b>685</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

##### IFRS 16 Leases (continued)

##### Leases previously accounted for as operating leases

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

Right-of-use assets	Buildings and construction	Oil & gas properties and equipment	Plant and machinery	Vessels and port facilities	Other	Total
Balance at 1 January 2019	192	137	23	260	92	704
Additions	23	2	10	-	8	43
Early terminated lease contracts	(1)	(2)	-	(8)	(38)	(49)
Depreciation charge for the period	(24)	(11)	(20)	(27)	(7)	(89)
Translation to presentation currency	1	(9)	(2)	(1)	1	(10)
<b>Balance at 31 December 2019</b>	<b>191</b>	<b>117</b>	<b>11</b>	<b>224</b>	<b>56</b>	<b>599</b>

Lease liabilities	Buildings and construction	Oil & gas properties and equipment	Plant and machinery	Vessels and port facilities	Other	Total
Balance at 1 January 2019	(192)	(136)	(25)	(276)	(56)	(685)
Additional leases	(24)	(2)	(10)	-	(7)	(43)
Early terminated lease contracts	-	6	-	8	26	40
Interest expense	(11)	(11)	(2)	(19)	(2)	(45)
Payments	32	15	11	12	8	78
Translation to presentation currency	(1)	20	2	-	3	24
<b>Balance at 31 December 2019</b>	<b>(196)</b>	<b>(108)</b>	<b>(24)</b>	<b>(275)</b>	<b>(28)</b>	<b>(631)</b>

Of which:

Current lease liabilities	(123)
Non-current lease liabilities	(508)

The following are the amounts recognised in profit or loss and other comprehensive income:

Interest expense on lease liabilities (Note 32)	45
Depreciation expense of right-of-use assets (Note 29)	89
Expense relating to variable lease payments (included in general and administrative expenses)	10
Expenses relating to short-term leases (included in cost of sales)	199
<b>Total</b>	<b>343</b>

The following are the amounts recognised in the statement of cash flows:

Cash payments for the principal portion of the lease liability within financing activities	(59)
Cash payments for the interest portion of the lease liability for interest paid within operating activities	(19)
Short-term lease payments within operating activities	(135)
Variable lease payments within operating activities	(10)
<b>Total</b>	<b>(223)</b>

The maturity analysis of lease liabilities is disclosed in Note 6.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

*IFRS 16 Leases (continued)*

(ii) *Group as a lessor (continued)*

The Group has entered into operating leases mainly consisting of drilling units in the amount of AZN 403 which are classified as building and construction within property, plant and equipment. The drilling units are used to carry out drilling works in oil and gas fields in Azerbaijan sector of Caspian Sea.

**Future rentals receivable under non-cancellable operating leases as at 31 December**

	2019	2018
Less than one year	250	188
One to two years	99	232
Two years to three years	7	85
More than three years	22	-
<b>Total</b>	<b>378</b>	<b>505</b>

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

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

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

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

*Amendments to IFRS 9 Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

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

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

These amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments or settlements during the year.

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

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

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

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

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

###### *IFRS 3 Business Combinations*

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

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

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

###### *IFRS 11 Joint Arrangements*

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

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

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

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

##### *Annual improvements 2015-2017 cycle (continued)*

###### *IAS 12 Income Taxes*

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

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

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

###### *IAS 23 Borrowing Costs*

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

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

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

##### **Standards issued but not yet effective**

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

###### *IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 *Insurance Contracts*.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

##### Standards issued but not yet effective (continued)

###### *Amendments to IFRS 3 Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

###### *Amendments to IAS 1 and IAS 8 Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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

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

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

###### Right to defer settlement

If an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

###### Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

###### Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

##### Standards issued but not yet effective (continued)

###### Meaning of the term 'settlement'

It is important to link the settlement of the liability with the outflow of resources of the entity. Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception. In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current. Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively. The Group currently considers whether there are any aspects of the amendments that suggest that terms of their existing loan agreements should be renegotiated.

###### *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

###### *Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7*

*Interest Rate Benchmark Reform* Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

#### 5. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the management of the Group and for which discrete financial information is available.

The Group has four reportable segments:

- ▶ Oil and gas – representing extraction of oil and gas products;
- ▶ Refining – representing refining of crude oil and gas condensate;
- ▶ Construction – representing construction of administrative premises and assets for extraction of oil and gas condensate;
- ▶ Sales and distribution – representing transportation and marketing of crude oil, natural gas, oil products and gas condensate.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 5. Segment information (continued)

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units and subsidiaries separately for the purpose of making decisions about resource allocation and performance assessment. Transfer prices between operating segments are either on an arm's length basis or non-arm's length basis.

Management evaluates performance of each segment based on profit after tax.

### Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2019 is set out below:

	Oil and gas	Refining	Construc- tion	Sales and distribution	Unalloca- ted (*)	Adjust- ments and elimina- tions (**)	Total
<b>2019</b>							
<b>Revenues</b>							
External customers	2,518	9,418	1,085	70,680	51	-	83,752
Inter-segment	3,156	747	828	21,701	522	(26,954)	-
<b>Total revenue</b>	<b>5,674</b>	<b>10,165</b>	<b>1,913</b>	<b>92,381</b>	<b>573</b>	<b>(26,954)</b>	<b>83,752</b>
Other operating income	10	171	31	100	115	(86)	341
Interest revenue calculated using effective interest method	6	161	31	46	1,669	(1,750)	163
Other finance income	-	47	-	-	-	-	47
Foreign exchange gains and losses, net	(7)	(256)	(7)	(36)	(9)	-	(315)
Raw materials and consumables used	(692)	(8,634)	(392)	(89,746)	(48)	25,541	(73,971)
Wages, salaries and social security costs	(262)	(417)	(349)	(559)	(307)	154	(1,740)
Depreciation of property, plant and equipment	(978)	(258)	(118)	(252)	(59)	62	(1,603)
Transportation and vehicle maintenance	(446)	(22)	(205)	(716)	(33)	338	(1,084)
ECL	(3)	(2)	(1)	(30)	(4)	(9)	(49)
Impairment of property, plant and equipment	(283)	-	-	(3)	-	-	(286)
Mining tax	(125)	-	-	-	-	-	(125)
Depreciation of right-of-use assets	(29)	(23)	(5)	(40)	-	8	(89)
Taxes other than on income	(83)	(25)	(3)	(28)	(58)	-	(197)
Amortization expense	-	(33)	(1)	(19)	(9)	1	(61)
Repairs and maintenance expenses	(295)	(41)	(113)	(66)	(72)	229	(358)
Utilities expense	(14)	(318)	(3)	(58)	(3)	2	(394)
Change in other provisions for liabilities and charges	(10)	(8)	(46)	(3)	(6)	-	(73)
Other	(372)	(297)	(293)	(644)	(332)	587	(1,351)
Loss on disposal of property, plant and equipment and intangible assets	-	(7)	-	1	(4)	-	(10)
Finance costs	(144)	(398)	(36)	(175)	(609)	202	(1,160)
Social expenses	(13)	(10)	(3)	(6)	(86)	-	(118)
Share of result of joint ventures	10	(32)	2	-	34	-	14
Share of result of associates	-	-	-	(6)	1	-	(5)
Income tax expenses	(387)	(49)	(85)	(88)	(68)	-	(677)
<b>Net profit/(loss) for the year</b>	<b>1,557</b>	<b>(286)</b>	<b>317</b>	<b>53</b>	<b>685</b>	<b>(1,675)</b>	<b>651</b>

(\*) These figures include unallocated revenues and expenses related to research and development, IT, security and other functions that are not managed at the group level.

(\*\*) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 5. Segment information (continued)

### Information about reportable segment profit or loss, assets and liabilities (continued)

	Oil and gas	Refining	Construc- tion	Sales and distribution	Unalloca- ted (*)	Adjust- ments and elimina- tions (**)	Total
Investments in associates	-	-	-	4,181	27	-	4,208
Investments in joint ventures	39	5,057	222	4	76	-	5,398
Other reportable segment assets	25,580	16,170	3,205	18,453	20,174	(27,813)	55,769
<b>Total reportable segment assets</b>	<b>25,619</b>	<b>21,227</b>	<b>3,427</b>	<b>22,638</b>	<b>20,277</b>	<b>(27,813)</b>	<b>65,375</b>
<b>Total reportable segment liabilities</b>	<b>(12,402)</b>	<b>(11,648)</b>	<b>(1,677)</b>	<b>(18,317)</b>	<b>(15,600)</b>	<b>18,597</b>	<b>(41,047)</b>
<b>Capital expenditure (***)</b>							
Additions - business units, JV and associates	1,030	2,088	5	212	42	(73)	3,304
Additions - subsidiaries	1,758	1,120	18	159	1	(62)	2,994
Acquisition through business combination (Note 39)	-	-	-	672	-	-	672
<b>Total capital expenditures</b>	<b>2,788</b>	<b>3,208</b>	<b>23</b>	<b>1,043</b>	<b>43</b>	<b>(135)</b>	<b>6,970</b>

(\*) These figures include unallocated assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(\*\*) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(\*\*\*) Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 5. Segment information (continued)

### Information about reportable segment profit or loss, assets and liabilities (continued)

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

	Oil and gas	Refining	Construc- tion	Sales and distribution	Unalloca- ted (*)	Adjust- ments and elimina- tions (**)	Total
<b>2018</b>							
<b>Revenues</b>							
External customers	3,120	5,021	779	98,699	143	-	107,762
Inter-segment	2,495	622	795	27,276	450	(31,638)	-
<b>Total revenue</b>	<b>5,615</b>	<b>5,643</b>	<b>1,574</b>	<b>125,975</b>	<b>593</b>	<b>(31,638)</b>	<b>107,762</b>
Other operating income	194	403	26	377	13	(97)	916
Interest revenue calculated using effective interest method	5	120	2	155	1,227	(1,325)	184
Other finance income	-	28	-	-	-	-	28
Foreign exchange (losses)/gains, net	(31)	(730)	(4)	15	(2)	54	(698)
Raw materials and consumables used	(678)	(4,118)	(294)	(123,777)	(84)	30,560	(98,391)
Wages, salaries and social security costs	(246)	(320)	(267)	(533)	(267)	123	(1,510)
Depreciation of property, plant and equipment	(793)	(154)	(123)	(228)	(105)	12	(1,391)
Transportation and vehicle maintenance	(446)	(20)	(153)	(803)	(32)	271	(1,183)
(ECL)/credit loss reversal	(153)	(5)	4	233	6	-	85
Impairment of property, plant and equipment	(155)	-	-	(7)	1	-	(161)
Mining tax	(126)	-	-	-	-	-	(126)
Taxes other than on income	(74)	(18)	(3)	(31)	(74)	1	(199)
Amortization expense	-	(13)	(1)	(21)	(9)	1	(43)
Repairs and maintenance expenses	(301)	(32)	(131)	(44)	(5)	182	(331)
Utilities expense	(16)	(276)	(2)	(82)	(3)	5	(374)
Change in other provisions for liabilities and charges	(4)	(41)	(21)	(6)	-	-	(72)
Other	(518)	(238)	(280)	(437)	(394)	600	(1,267)
Loss on disposal of property, plant and equipment and intangible assets	(2)	(11)	(3)	(2)	3	-	(15)
Finance costs	(104)	(482)	(26)	(260)	(570)	316	(1,126)
Social expenses	(9)	(7)	(2)	(5)	(82)	-	(105)
Share of result of joint ventures	13	124	65	-	11	-	213
Share of result of associates	-	-	-	(17)	41	-	24
Income tax expenses	(612)	(110)	(118)	(82)	(74)	-	(996)
<b>Net profit/(loss) for the year</b>	<b>1,559</b>	<b>(257)</b>	<b>243</b>	<b>420</b>	<b>194</b>	<b>(935)</b>	<b>1,224</b>

(\*) These figures include unallocated revenues and expenses related to research and development, IT, security and other functions that are not managed at the group level.

(\*\*) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 5. Segment information (continued)

### Information about reportable segment profit or loss, assets and liabilities (continued)

	Oil and gas	Refining	Construc- tion	Sales and distribution	Unalloca- ted (*)	Adjust- ments and elimina- tions (**)	Total
Investments in associates	-	-	-	4,328	31	-	4,359
Investments in joint ventures	38	4,978	237	4	44	-	5,301
Other reportable segment assets	23,595	13,249	2,650	19,887	18,045	(24,950)	52,476
<b>Total reportable segment assets</b>	<b>23,633</b>	<b>18,227</b>	<b>2,887</b>	<b>24,219</b>	<b>18,120</b>	<b>(24,950)</b>	<b>62,136</b>
<b>Total reportable segment liabilities</b>	<b>(10,372)</b>	<b>(9,641)</b>	<b>(1,792)</b>	<b>(19,896)</b>	<b>(13,757)</b>	<b>17,266</b>	<b>(38,192)</b>
<b>Capital expenditure (***)</b>							
Additions – business units, JV and associates	1,114	1,540	76	207	59	(18)	2,978
Additions – subsidiaries	1,359	1,352	(9)	217	2	(102)	2,819
Acquisition through business combination (APMT business)	-	-	-	156	-	-	156
Acquisition through business combination (Austrian business)	-	-	-	112	-	-	112
<b>Total capital expenditures</b>	<b>2,473</b>	<b>2,892</b>	<b>67</b>	<b>692</b>	<b>61</b>	<b>(120)</b>	<b>6,065</b>

(\*) These figures include unallocated assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(\*\*) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(\*\*\*) Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

### Geographical information

Revenues for each individual country are reported separately as follows:

	2019	2018
Switzerland	63,735	91,067
Turkey	9,377	4,972
Azerbaijan	6,145	6,626
UAE	1,722	2,352
Georgia	1,172	1,124
Other	1,601	1,621
<b>Total consolidated revenues</b>	<b>83,752</b>	<b>107,762</b>

The analysis is based on the country of incorporation of the selling entity.



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 5. Segment information (continued)

### Geographical information (continued)

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended 31 December 2019:

Segments	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Total
Sale of crude oil, net	1,930	-	-	49,191	-	51,121
Sale of oil products, net	55	4,785	-	17,358	-	22,198
Sale of petrochemicals	-	3,609	-	305	-	3,914
Sale of natural gas	340	651	-	3,132	-	4,123
Rent income	-	16	400	-	-	416
Other revenue	193	357	685	694	51	1,980
<b>Total</b>	<b>2,518</b>	<b>9,418</b>	<b>1,085</b>	<b>70,680</b>	<b>51</b>	<b>83,752</b>
Switzerland	-	-	-	63,735	-	63,735
Turkey	-	9,377	-	-	-	9,377
Azerbaijan	2,518	41	914	2,623	49	6,145
UAE	-	-	171	1,551	-	1,722
Georgia	-	-	-	1,170	2	1,172
Other	-	-	-	1,601	-	1,601
<b>Total</b>	<b>2,518</b>	<b>9,418</b>	<b>1,085</b>	<b>70,680</b>	<b>51</b>	<b>83,752</b>
Good transferred at a point in time	2,518	9,378	714	69,847	48	82,505
Services transferred over time	-	40	371	833	3	1,247
<b>Total revenue from contracts with customers</b>	<b>2,518</b>	<b>9,418</b>	<b>1,085</b>	<b>70,680</b>	<b>51</b>	<b>83,752</b>
<b>Revenue</b>						
External customer	2,518	9,418	1,085	70,680	51	83,752
Inter-segment	3,156	747	828	21,701	522	26,954
<b>Total</b>	<b>5,674</b>	<b>10,165</b>	<b>1,913</b>	<b>92,381</b>	<b>573</b>	<b>110,706</b>
Adjustment and eliminations	(3,156)	(747)	(828)	(21,701)	(522)	(26,954)
<b>Total revenue from contracts with customers</b>	<b>2,518</b>	<b>9,418</b>	<b>1,085</b>	<b>70,680</b>	<b>51</b>	<b>83,752</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 5. Segment information (continued)

### Geographical information (continued)

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended 31 December 2018:

Segments	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Total
Sale of crude oil, net	2,237	--	--	56,125	1	58,363
Sale of oil products, net	473	1,459	--	38,300	--	40,232
Sale of petrochemicals	--	3,441	--	453	--	3,894
Sale of natural gas	267	3	--	3,034	--	3,304
Rent income	--	11	385	--	--	396
Other revenue	143	107	394	787	142	1,573
<b>Total</b>	<b>3,120</b>	<b>5,021</b>	<b>779</b>	<b>98,699</b>	<b>143</b>	<b>107,762</b>
Switzerland	--	--	--	91,067	--	91,067
Azerbaijan	3,120	50	779	2,536	141	6,626
Turkey	--	4,971	--	1	--	4,972
UAE	--	--	--	2,352	--	2,352
Georgia	--	--	--	1,122	2	1,124
Other	--	--	--	1,621	--	1,621
<b>Total</b>	<b>3,120</b>	<b>5,021</b>	<b>779</b>	<b>98,699</b>	<b>143</b>	<b>107,762</b>
Good transferred at a point in time	3,117	4,993	607	98,073	136	106,926
Services transferred over time	3	28	172	626	7	836
<b>Total revenue from contracts with customers</b>	<b>3,120</b>	<b>5,021</b>	<b>779</b>	<b>98,699</b>	<b>143</b>	<b>107,762</b>
<b>Revenue</b>						
External customer	3,120	5,021	779	98,699	143	107,762
Inter-segment	2,495	622	795	27,276	450	31,638
<b>Total</b>	<b>5,615</b>	<b>5,643</b>	<b>1,574</b>	<b>125,975</b>	<b>593</b>	<b>139,400</b>
Adjustment and eliminations	(2,495)	(622)	(795)	(27,276)	(450)	(31,638)
<b>Total revenue from contracts with customers</b>	<b>3,120</b>	<b>5,021</b>	<b>779</b>	<b>98,699</b>	<b>143</b>	<b>107,762</b>

Non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets for each individual country is reported separately as follows:

	2019	2018
Azerbaijan	32,847	30,668
Turkey	8,838	8,010
Switzerland	977	761
Georgia	548	524
UAE	522	555
Other	269	294
<b>Total</b>	<b>44,001</b>	<b>40,812</b>

The analysis is based on location of assets.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management

### Financial risk factors

The Group's principal financial liabilities other than derivatives comprise trade and other payables and borrowings. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include cash and cash equivalents and short-term deposits and trade and other receivables that derive directly from its operations. The Group also holds investments in debt and equity instruments and enters into derivative transactions.

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

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, commodity price risk and interest rate risk. Financial instruments affected by market risk include cash and cash equivalents and short-term deposits, trade and other receivables, trade and other payables, borrowings and derivatives.

#### (i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to USD. Foreign exchange risk arises primarily from future commercial transactions, recognized assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

The majority of the Group's cash and cash equivalents and short-term deposits, trade and other receivables, trade and other payables and borrowings are denominated in USD.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR, TRY, GEL, CHF exchange rates, with all other variables held constant, of the Group's profit before tax:

2019	Change in rates (+/-)	Effect on profit before tax
USD/AZN	10.00%/-3.00%	(816)/245
USD/TRY	10.00%/-10.00%	(120)/120
EUR/AZN	10.00%/-6.00%	(104)/62
USD/GEL	10.00%/-5.00%	(24)/12
EUR/TRY	10.00%/-10.00%	(11)/11
USD/CHF	6.50%/-6.50%	4/(4)
2018	Change in rates (+/-)	Effect on profit before tax
USD/AZN	14.00%/-3.00%	(1,004)/215
USD/TRY	10.00%/-10.00%	(170)/170
EUR/AZN	14.00%/-3.00%	(167)/36
USD/GEL	11.00%/-11.00%	(28)/28
EUR/TRY	10.00%/-10.00%	(15)/15
USD/CHF	7.00%/-7.00%	6/(6)

Group's exposure to foreign currency changes for all other currencies is not material.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management (continued)

### Market risk (continued)

#### (ii) Commodity price risk

The Group is exposed to certain price risk due to volatility of oil prices. Due to the risk the Group's management has developed and enacted a risk management strategy regarding oil price risk and its mitigation.

Based on forecasts about oil purchases and sales, the Group hedges the price using futures, swaps and forward contracts.

The following sensitivity analysis is based upon derivative price exposures that existed at 31 December 2019, whereby if oil future prices had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit after the impact of hedge accounting and equity would have been as follows:

	Change in year-end price	Effect on profit before tax	Effect on pre-tax equity
2019	5%/(5%)	66/(66)	53/(53)
2018	5%/(5%)	111/(111)	89/(89)

#### (iii) Interest rate risk

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets and financial liabilities with floating interest rates. To mitigate this risk, the Group's management performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case where the change in the current market fixed or variable interest rates is considered significant, management may consider refinancing a particular debt on more favourable interest rate terms. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates.

The floating rate for majority of interest-bearing liabilities and assets exposes the Group to fluctuation in interest payments and receipts mainly due to changes in London Inter-Bank Offered Rate (LIBOR) and Euro inter-bank Offered Rate (EURIBOR).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings, net of loans receivable:

	Increase/ decrease in basis points	Effect on profit before tax
<b>2019</b>		
<b>Loans and borrowings, net of loans receivable</b>		
USD	+35/-35	19/(19)
EUR	+15/-15	1/(1)
<b>2018</b>		
<b>Loans and borrowings, net of loans receivable</b>		
USD	+50/-15	25/(7)
EUR	+20/-1	2/(1)

#### Credit risk and concentration of credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if counterparty defaults on its contractual obligations.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management (continued)

### Credit risk and concentration of credit risk (continued)

The Group's financial instruments that are exposed to concentrations of credit risk primarily comprise cash and cash equivalents, including restricted cash, trade receivables and loans receivable.

The Group's maximum exposure to credit risk is represented by gross carrying amount of financial assets and is presented by class of assets as shown in the table below:

	2019	2018
Cash and cash equivalents excluding cash on hand (Note 8)	7,086	6,651
Restricted cash	150	201
Deposits (Note 8)	107	155
Trade and other receivables (Note 10)	7,940	7,372
Other current financial assets	304	197
Other non-current financial assets	681	485
Financial guarantees given (Note 38)	1,042	947
<b>Total exposure to credit risk</b>	<b>17,310</b>	<b>16,008</b>

The Group places its cash with reputable financial institutions in the Azerbaijan Republic. The Group's cash is placed with the International Bank of Azerbaijan ("IBA") which is controlled by the Azerbaijani Government. The balance of cash and cash equivalents and deposit held with the IBA at 31 December 2019 was AZN 1,856 (31 December 2018: AZN 1,263). The Group continually monitors the status of the banks where its accounts are maintained. In addition, the Group's restricted cash balance in the amount of AZN 37 (31 December 2018: AZN 75) is placed in Government treasury account.

Trade receivables primarily comprise balances with local and foreign customers, including related parties, for crude oil, oil products and natural gas sold. The Group's credit risk arising from its trade balance with customers is mitigated by continuous monitoring of their creditworthiness. Management of the Group believes that the Group is not exposed to high credit risk as the impairment provision has already been accrued in the accompanying consolidated financial statements for all debtors which are not expected to be recovered in future.

The Group categorized its financial assets as follows:

31 December 2019	Standard	Sub-standard	Past due but not in default	In default
Cash and cash equivalents excluding cash on hand (Note 8)	7,086	-	-	-
Restricted cash	150	-	-	-
Deposits (Note 8)	107	-	-	-
Trade and other receivables (Note 10)	6,644	226	525	545
Other current financial assets	-	304	-	-
Other non-current financial assets	-	681	-	-
<b>Total</b>	<b>13,987</b>	<b>1,211</b>	<b>525</b>	<b>545</b>

31 December 2018	Standard	Sub-standard	Past due but not impaired	Individually impaired
Cash and cash equivalents excluding cash on hand (Note 8)	5,388	1,263	-	-
Restricted cash	201	-	-	-
Deposits (Note 8)	119	36	-	-
Trade and other receivables (Note 10)	5,842	168	741	621
Other current assets	-	197	-	-
Other non-current financial assets	-	485	-	-
<b>Total</b>	<b>11,550</b>	<b>2,149</b>	<b>741</b>	<b>621</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management (continued)

### Credit risk and concentration of credit risk (continued)

The standard grade includes counterparties with good financial position and good debt service, which have minimal credit risk exposure. In addition, counterparties in these financial assets normally have a high credit rating or are sufficiently collateralized. Sub-standard grade is represented by financial assets, that are neither past due nor in default, of counterparties not having high credit rating.

The Group considers that there has been a significant increase in credit risk if one of the following criteria is met:

- ▶ Contractual payments are more than 30 days past due from the date specified in the contract;
- ▶ An external credit rating provided by international rating agencies downgrade for the counterparty for 3 and more notches, relative to the risk grade of the counterparty as of initial recognition date;
- ▶ Moody's external rating "Caa1" (or equivalent for S&P or Fitch) and below.

The Group considers a financial asset in default if one of the following criteria is met:

- ▶ Contractual payments are more than 90 days past due from the date specified in the contract;
- ▶ Existing of information that counterparty will or has enter bankruptcy, insolvency or a similar condition;
- ▶ Announcement of default grade to counterparty by international credit rating agencies

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows.

Prudent liquidity risk management includes maintaining sufficient working capital and the ability to close out market positions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The Group's financial liabilities represent both derivative and non-derivative financial instruments. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The maturity analysis of financial liabilities as of 31 December 2019 and 2018 is as follows:

At 31 December 2019	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables	11,121	–	–	–	11,121
Lease liabilities	31	92	378	748	1,249
Deferred acquisition consideration payable	–	157	–	841	998
Other current liabilities	–	324	–	–	324
Interest-bearing borrowings	2,273	2,363	10,010	3,084	17,730
Other non-current liabilities	–	–	687	50	737
Put option liabilities	38	116	2,812	–	2,966
Financial guarantees given	–	–	1,042	–	1,042
<b>Total undiscounted financial liabilities</b>	<b>13,463</b>	<b>3,052</b>	<b>14,929</b>	<b>4,723</b>	<b>36,167</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management (continued)

### Liquidity risk (continued)

At 31 December 2018	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables	11,642	–	–	–	11,642
Deferred acquisition consideration payable	–	157	–	827	984
Other current liabilities	–	355	–	–	355
Interest-bearing borrowings	2,659	1,694	7,086	3,565	15,004
Other non-current liabilities	–	–	668	77	745
Put option liabilities	46	137	3,009	–	3,192
Financial guarantees given	–	–	947	–	947
<b>Total undiscounted financial liabilities</b>	<b>14,347</b>	<b>2,343</b>	<b>11,710</b>	<b>4,469</b>	<b>32,869</b>

### Capital management

The primary objective of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain government, investor and creditor confidence to support its business activities.

The Group considers total capital under management to be as follows:

	2019	2018
Total borrowings (Note 20)	15,542	13,672
Total equity	24,328	23,944
Less: cash and cash equivalents (Note 8)	(7,084)	(6,640)
<b>Total capital under management</b>	<b>32,786</b>	<b>30,976</b>

The Group is periodically mandated to contribute to the state budget and finance various projects undertaken by the Government of the Azerbaijan Republic. There were no changes to the Group's approach to capital management during the year.

### Fair value of financial instruments

The fair value of the financial assets and liabilities is included at the amount 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. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management (continued)

### Fair value of financial instruments (continued)

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements.

	31 December 2019	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 8)	7,084	7,084
Deposits (Note 8)	106	106
Restricted cash	150	150
Trade and other receivables	7,292	7,292
Other current assets	755	755
Other non-current financial assets	1,421	1,387
<b>Total financial assets</b>	<b>16,808</b>	<b>16,774</b>
Trade and other payables (Note 19)	(11,121)	(11,121)
Other current liabilities (Note 25)	(324)	(324)
Short-term borrowings and current portion of long-term borrowings (Note 20)	(4,173)	(4,173)
Long-term borrowings (Note 20)	(11,369)	(11,602)
Current portion of deferred acquisition consideration payable	(157)	(157)
Non-current portion of deferred acquisition consideration payable	(570)	(562)
Other non-current liabilities	(737)	(654)
Put option liabilities (Note 35)	(2,718)	(2,718)
<b>Total financial liabilities</b>	<b>(31,169)</b>	<b>(31,311)</b>
	31 December 2018	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 8)	6,640	6,640
Deposits (Note 8)	151	151
Restricted cash	201	201
Trade and other receivables	6,606	6,606
Other current assets	851	851
Other non-current financial assets	1,323	1,282
<b>Total financial assets</b>	<b>15,772</b>	<b>15,731</b>
Trade and other payables (Note 19)	(11,642)	(11,642)
Other current liabilities (Note 25)	(355)	(355)
Short-term borrowings and current portion of long-term borrowings (Note 20)	(4,013)	(4,013)
Long-term borrowings (Note 20)	(9,659)	(9,616)
Current portion of deferred acquisition consideration payable	(157)	(157)
Non-current portion of deferred acquisition consideration payable	(529)	(480)
Other non-current liabilities	(849)	(725)
Put option liabilities (Note 35)	(2,713)	(2,713)
<b>Total financial liabilities</b>	<b>(29,917)</b>	<b>(29,701)</b>



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management (continued)

### Fair value of financial instruments (continued)

The following methods and assumptions were used to estimate the fair values:

- (i) Current financial assets and liabilities fair values approximate their carrying amounts largely due to the short maturities of these instruments;
- (ii) Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group using Level 3 inputs based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and the risk characteristics of the financed project.

### Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2019:

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets measured at fair value</b>				
Other current financial assets at FVPL	372	23	337	12
Other current financial assets at FVOCI	81	81	-	-
Trade receivables at FVOCI	1,072	-	1,072	-
Other non-current financial assets at FVPL	809	-	89	720
<b>Liabilities measured at fair value</b>				
Other current liabilities at FVPL	(301)	(36)	(265)	-
Other non-current liabilities at FVPL	(34)	(2)	(32)	-
<b>Assets for which fair value are disclosed</b>				
Deposits	106	-	106	-
Trade and other receivables	6,220	-	-	6,220
Other current financial assets	302	-	-	302
Other non-current financial assets	578	-	-	578
<b>Liabilities for which fair values are disclosed</b>				
Trade and other payables	(11,121)	-	-	(11,121)
Other current financial liabilities	(23)	-	-	(23)
Short-term borrowings and current portion of long-term borrowings	(4,173)	-	-	(4,173)
Long-term borrowings	(11,602)	(3,572)	-	(8,030)
Deferred acquisition consideration payable	(719)	-	-	(719)
Other non-current liabilities	(620)	-	-	(620)
Put option liabilities	(2,718)	-	-	(2,718)

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management (continued)

### Fair value hierarchy (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2018:

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets measured at fair value</b>				
Other current financial assets at FVPL	554	141	413	-
Other current financial assets at FVOCI	100	100	-	-
Trade receivables at FVOCI	1,211	-	1,211	-
Other non-current financial assets at FVPL	805	57	167	581
<b>Liabilities measured at fair value</b>				
Other current liabilities at FVPL	(355)	-	(355)	-
Other non-current liabilities at FVPL	(97)	(5)	(92)	-
<b>Assets for which fair value are disclosed</b>				
Deposits	151	-	151	-
Trade and other receivables	5,395	-	-	5,395
Other current financial assets	197	-	-	197
Other non-current financial assets	477	-	-	477
<b>Liabilities for which fair values are disclosed</b>				
Trade and other payables	(11,642)	-	-	(11,642)
Short-term borrowings and current portion of long-term borrowings	(4,013)	-	-	(4,013)
Long-term borrowings	(9,616)	(3,373)	-	(6,243)
Deferred acquisition consideration payable	(637)	-	-	(637)
Other non-current liabilities	(628)	-	-	(628)
Put option liabilities	(2,713)	-	-	(2,713)

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Other current assets at FVPL	Other non- current financial assets at FVPL
<b>At 1 January 2018</b>	-	-
Purchases	-	598
Remeasurement recognized in PL (Note 30)	-	142
Translation to presentation currency	-	(159)
<b>At 1 January 2019</b>	-	581
Remeasurement recognized in PL (Note 30)	-	117
Purchases	12	93
Translation to presentation currency	-	(71)
<b>At 31 December 2019</b>	12	720

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 6. Financial risk management (continued)

### Fair value hierarchy (continued)

Financial assets classified under IFRS 9 as of 31 December 2019 as follow:

	Amortized cost	FVOCI	FVPL
Cash and cash equivalents	7,084	-	-
Restricted cash	150	-	-
Deposits	106	-	-
Trade and other receivables	6,220	1,072	-
Other current financial assets	302	81	372
Other long-term financial assets	612	-	809
<b>Total financial assets after ECL</b>	<b>14,474</b>	<b>1,153</b>	<b>1,181</b>

Financial assets classified under IFRS 9 as of 31 December 2018 as follow:

	Amortized cost	FVOCI	FVPL
Cash and cash equivalents	6,640	-	-
Restricted cash	201	-	-
Deposits	151	-	-
Trade and other receivables	5,395	1,211	-
Other current financial assets	197	100	554
Other long-term financial assets	518	-	805
<b>Total financial assets after ECL</b>	<b>13,102</b>	<b>1,311</b>	<b>1,359</b>

## 7. Balances and transactions with related parties

### Key management compensation

Key management of the Group includes the President of SOCAR and its twelve Vice-Presidents. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of directors for certain Group companies. During 2019, compensation of key management personnel totalled to AZN 1.404 (2018: AZN 1.282).

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

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 7. Balances and transactions with related parties (continued)

### Significant balances and transactions with related parties

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

	Note	Government and entities under government control	Associates, joint ventures
Trade and other financial receivables		156	1,987
ECL		(44)	(12)
<b>Total financial receivables</b>		<b>112</b>	<b>1,975</b>
Cash and cash equivalents		1,850	-
Restricted cash		82	-
Other current financial assets		-	63
Deposits		7	-
<b>Total current assets</b>		<b>2,051</b>	<b>2,038</b>
Other non-current financial assets		-	542
<b>Total assets</b>		<b>2,051</b>	<b>2,580</b>
Trade and other payables to SOFAZ		2,645	-
Trade and other payables		516	931
<b>Total financial payables</b>		<b>3,161</b>	<b>931</b>
Advances received for the sale of interest in PSA	34	-	4,313
Deferred consideration payable to SGC		-	570
Lease liabilities		413	-
Long-term payables to SGC		-	103
Deferred consideration payable for Methanol Plant		67	-
<b>Total liabilities (excluding borrowings)</b>		<b>3,641</b>	<b>5,917</b>

As at 31 December 2019, borrowings balances with related parties were as follows:

Bank name	Interest rate	Maturity date	2019
International Bank of Azerbaijan	4.4-4.8%	21 July 2022 – 23 August 2026	627
Ministry of Finance of Azerbaijan Republic	2-3%	30 June 2023 – 1 April 2039	271
<b>Total borrowings</b>			<b>898</b>

As at 31 December 2019, outstanding bonds payable balances with related parties were as follows:

Bond holder	Coupon rate	Maturity date	2019
Azerbaijan Investment Company	4%	30 December 2027	169
SOFAZ	LIBOR + 1%	1 December 2024	301
SOFAZ	LIBOR + 1.335%	30 December 2027	272
SOFAZ	LIBOR + 4%	31 December 2029	786
SOFAZ	3.80%	1 September 2028	969
SOFAZ	4.60%	31 December 2029	414
<b>Total bonds payable</b>			<b>2,911</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 7. Balances and transactions with related parties (continued)

### Significant balances and transactions with related parties (continued)

The transactions with related parties for the year ended 31 December 2019 were as follows:

	Government and entities under government control	Associates, joint ventures
Sales of natural gas	602	390
Sales of oil products	378	31
Sales of crude oil	-	6,351
Service rendered	1	87
Interest income on loan receivables from related parties	-	34
Finance cost on loans from related parties	(98)	-
Utilities costs	(70)	(5)
Other operating expenses	(39)	(6)
Other operating income	27	-
Social expenses	(20)	-
Transportation expenses	(183)	(339)
Security expenses	(16)	-
Purchases of PPE and inventory	(14,952)	(5,626)
Dividends received from joint ventures	-	31
Dividends received from associates	-	117

At 31 December 2018, the outstanding balances with related parties were as follows:

	Note	Government and entities under government control	Associates, joint ventures
Trade and other financial receivables		157	426
ECL		(41)	(7)
<b>Total financial receivables</b>		<b>116</b>	<b>419</b>
Cash and cash equivalents:		1,227	-
Restricted cash		176	-
Deposits		58	-
Other current financial assets		-	34
<b>Total current assets</b>		<b>1,577</b>	<b>453</b>
Other non-current financial assets		-	467
<b>Total assets</b>		<b>1,577</b>	<b>920</b>
Trade and other payables to SOFAZ		3,125	-
Trade and other payables:		609	911
<b>Total financial payables</b>		<b>3,734</b>	<b>911</b>
Advances received for the sale of interest in PSA	34	-	4,313
Deferred consideration payable to SGC		-	529
Deferred consideration payable for Methanol Plant		62	-
Long-term payables to SGC		-	55
<b>Total liabilities (excluding borrowings)</b>		<b>3,796</b>	<b>5,808</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 7. Balances and transactions with related parties (continued)

### Significant balances and transactions with related parties (continued)

As at 31 December 2018, borrowings balances with related parties were as follows:

Bank name	Interest rate	Maturity date	2018
International Bank of Azerbaijan	4.4-4.8%	21 July 2022 – 23 August 2026	451
Ministry of Finance of Azerbaijan Republic	2-3%	30 June 2023 – 1 April 2039	315
<b>Total borrowings</b>			<b>766</b>

As at 31 December 2018, outstanding bonds payable balances with related parties were as follows:

Bond holder	Coupon rate	Maturity date	2018
Azerbaijan Investment Company	4%	30 December 2027	163
SOFAZ	LIBOR + 1%	1 December 2024	430
SOFAZ	LIBOR + 1.335%	30 December 2027	286
SOFAZ	LIBOR + 4%	31 December 2029	412
SOFAZ	3.80%	1 September 2028	-
SOFAZ	4.60%	31 December 2029	-
<b>Total bonds payable</b>			<b>1,291</b>

The transactions with related parties for the year ended 31 December 2018 were as follows:

	Government and entities under government control	Associates, joint ventures
Sales of natural gas	640	261
Sales of oil products	396	6
Sales of crude oil	-	327
Service rendered	3	67
Interest income on loan receivables from related parties	-	25
Finance cost on loans from related parties	(59)	-
Utilities costs	(67)	(5)
Other operating expenses	(40)	(10)
Other operating income	206	-
Social expenses	(19)	-
Transportation expenses	(111)	(407)
Security expenses	(10)	-
Purchases of PPE and inventory	(17,275)	(874)
Dividends received from joint ventures	-	106
Dividends received from associates	-	84

### Terms and conditions of transactions with related parties

Main sales to and purchases from the Government and entities under government control are made at prices regulated by the Azerbaijani Government. Outstanding balances at the year-end are unsecured and settlement occurs in cash.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 8. Cash and cash equivalents and short-term deposits

	2019	2018
USD denominated bank balances	5,646	5,139
AZN denominated bank balances	827	1,076
TRY denominated bank balances	287	48
EUR denominated bank balances	151	273
CHF denominated bank balances	100	45
Other currencies' denominated bank balances	75	70
Cash on hand	11	6
ECL	(13)	(17)
<b>Total cash and cash equivalents</b>	<b>7,084</b>	<b>6,640</b>

### Deposits

At 31 December 2019, term deposits included placements in the total amount of AZN 107 with maturity of one year, under fixed contractual interest rates ranging from 1 per cent to 3 per cent per annum.

At 31 December 2018, term deposits included placements in the total amount of AZN 155 with maturity of one year, under fixed contractual interest rates ranging from 1 per cent to 1.6 per cent per annum.

At 31 December 2019, the Group recognized ECL on deposits in the amount of AZN 1 (31 December 2018: AZN 4).

## 9. Restricted cash

At 31 December 2019, restricted cash was mainly represented by two cash collateral accounts. The Group had restricted cash in the amount of AZN 63 (USD 37 million) in Deutsche Bank (31 December 2018: AZN 63) as a guarantee of minimum return payments payable to Goldman Sachs International ("GSI") according to the Put Option Agreement in relation to 13 percent shares of STEAS (Note 35). At 31 December 2019, The Group had restricted cash in the amount of AZN 45 in International Bank of Azerbaijan (31 December 2018: AZN 93) as an irrevocable letter of credits for the foreign purchases related to modernization process of Azerikimya plant. In addition, the Group had VAT deposit account in the amount of AZN 37 (31 December 2018: AZN 75) on which the operations are performed associated with receipt, registration and movements of VAT and its payment to state budget.

## 10. Trade and other receivables

	2019	2018
Trade receivables	7,714	7,204
Other receivables	226	168
Less: ECL	(648)	(766)
<b>Total financial receivables</b>	<b>7,292</b>	<b>6,606</b>
VAT recoverable	922	885
Prepayments	357	623
Underlift oil balance	181	90
Taxes receivable	113	151
Other	54	40
<b>Total trade and other receivables</b>	<b>8,919</b>	<b>8,395</b>

Trade receivables are mainly represented by receivables from sales of crude oil, oil products and natural gas sold to customers of the Group.

At 31 December 2019, financial receivables of AZN 7,363 (31 December 2018: AZN 7,016) were denominated in foreign currencies, mainly in USD.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 10. Trade and other receivables (continued)

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

Set out below is the movement in the allowance for ECL of trade receivables:

	2019	2018
<b>At 31 December</b>	<b>766</b>	<b>816</b>
Impact of adopting IFRS 9	-	35
<b>At 1 January</b>	<b>766</b>	<b>851</b>
ECL	67	19
Credit loss reversal	(16)	(54)
Write-off	(160)	(24)
Currency translation difference	(9)	(26)
<b>At 31 December</b>	<b>648</b>	<b>766</b>

#### 11. Inventories

	2019	2018
Raw materials and spare parts	704	594
Finished goods	598	725
Crude oil	351	408
Goods in transit	231	1,045
Work in progress	128	142
Other	55	65
<b>Total inventories</b>	<b>2,067</b>	<b>2,979</b>

As at 31 December 2019 and 2018, all inventory balances have been measured at cost.

#### 12. Other current assets and other current financial assets

##### Other current assets

At 31 December 2019, other current assets mainly comprised contract assets in the amount of AZN 28 (31 December 2018: nil), which were represented by transportation and demurrage services.

##### Other current financial assets

At 31 December 2019 and 2018, other current financial assets mainly comprised derivative instruments, loan receivables and equity investments at FVOCI.

At 31 December 2019, the Group had balances related to margin deposits and financial derivatives in the amount of AZN 548 (31 December 2018: AZN 691).

At 31 December 2019, the Group had loan receivable balance from third party in the amount of AZN 63 (31 December 2018: AZN 34).

At 31 December 2019, the Group had equity investments at FVOCI in the amount of AZN 81 (31 December 2018: AZN 100).



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

### **13. Other non-current assets**

At 31 December 2019, other non-current assets were mainly represented by long-term prepayments for purchase of property, plant and equipment in the amount of AZN 731 (31 December 2018: AZN 1,705), non-current VAT receivable in the amount of AZN 99 (31 December 2018: AZN 113), net defined benefit assets in the amount of AZN 24 (31 December 2018: AZN 9), long-term prepaid expenses in the amount of AZN 13 (31 December 2018: AZN 22).

### **14. Other non-current financial assets**

At 31 December 2019 and 2018, other non-current financial assets mainly comprised loan receivables from related parties, equity investment at FVPL, long-term deposits and derivative instruments.

At 31 December 2019, other non-current financial assets were represented by fair value of 7 per cent equity interest and loan receivable from TANAP Doğalgaz İletim A.Ş. in the amount of AZN 651 and AZN 448, respectively (31 December 2018: AZN 581 and AZN 388, respectively).

At 31 December 2019, the Group's loan receivable from its associates was equal to AZN 94 (31 December 2018: AZN 79).

At 31 December 2019, the Group had long-term deposits placed in local banks in the amount of AZN 74 (31 December 2018: AZN 17).

The Group has entered into a series of commodity swaps, commodity futures and foreign exchange futures to mitigate price and foreign exchange risks. At 31 December 2019, the Group recognized unrealized fair value gains on derivative instruments in the amount of AZN 86 (31 December 2018: AZN 224). The fair value was determined based on the difference between the market value and contracted fixed value of buy and sell contracts.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

**15. Property, plant and equipment**

Movements in the carrying amount of property, plant and equipment ("PPE") were as follows:

Cost	Buildings and constructions	Oil & gas properties and equipment	Plant and machinery	Vessels and port facilities	Other	Development costs	Construction in progress	Total
At 1 January 2018	3,526	21,719	4,482	812	1,624	3,055	3,262	38,480
Additions	27	1,726	145	123	51	128	2,382	4,582
Acquisition through business combination (APMT business) (Note 39)	-	-	80	-	17	-	1	98
Acquisition through business combination (Austrian business) (Note 39)	85	-	14	-	1	-	-	101
Disposals	(23)	(35)	(94)	-	(25)	-	(53)	(230)
Transfers	153	3,622	192	28	194	(3,183)	(1,006)	-
Translation to presentation currency	(74)	(18)	(401)	48	(222)	-	(216)	(883)
At 31 December 2018	3,595	27,014	4,418	1,011	1,640	-	4,370	42,148
Additions	21	1,912	1,286	-	69	276	1,797	5,361
Acquisition through business combinations (Note 39)	20	178	4	-	3	-	11	216
Disposals	(22)	(27)	(44)	-	(9)	-	(16)	(118)
Transfers from PPE to ROU	203	-	(3)	-	-	-	-	(23)
Transfers	(41)	(36)	(126)	17	(77)	-	(1,848)	-
Translation to presentation currency	3,856	29,816	6,369	1,028	1,662	276	(83)	(346)
At 31 December 2019	(1,216)	(8,416)	(1,965)	(45)	(770)	-	(399)	(12,811)
Depreciation and impairment	(145)	(886)	(292)	(50)	(56)	-	-	(1,431)
At 1 January 2018	5	42	47	-	11	-	-	105
Depreciation charge for the year	(25)	(101)	-	(7)	-	-	(28)	(161)
Disposal	-	187	-	-	-	-	-	187
Reversal of impairment	4	(11)	7	-	-	-	-	-
Transfers	8	4	192	1	17	-	-	222
Translation to presentation currency	(1,369)	(9,181)	(2,011)	(101)	(800)	-	(427)	(13,899)
At 31 December 2018	(134)	(1,073)	(348)	(50)	(61)	-	-	(1,666)
Depreciation charge for the year	7	26	33	-	7	-	-	73
Disposal	(2)	(283)	-	-	(1)	-	-	(286)
Reversal of impairment	(2)	2	-	-	-	-	-	-
Transfers	2	10	60	-	6	-	-	78
Translation to presentation currency	(1,498)	(10,499)	(2,266)	(151)	(849)	-	(427)	(15,690)
At 31 December 2019	2,310	13,303	2,517	767	854	3,055	2,863	25,669
Net book value	2,326	17,833	2,407	910	840	-	3,943	28,259
At 1 January 2018	2,358	19,317	4,103	877	813	276	3,804	31,548

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 15. Property, plant and equipment (continued)

During 2019, the Group capitalized finance costs in the amount of AZN 165, which was mainly attributable to the construction of assets (31 December 2018: AZN 137). The Group made interest payments of AZN 1,131 (2018: AZN 971) during the year of which AZN 111 (2018: AZN 86) related to capitalized interest expenses over PPE.

During 2019, the Group acquired assets in the amount of AZN 5,361 (2018: AZN 4,582) excluding property, plant and equipment acquired through business combinations in the amount of AZN 216 (2018: AZN 199).

At 31 December 2019, the Group's impairment charge is mainly represented by write-down of oil & gas properties and equipment in the amount of AZN 283 (2018: AZN 129) related to investments in the non-profitable oil fields located in the Republic of Azerbaijan. Impairment loss related to oil and gas segment of the Group was recognised within other operating expenses. The Group does not expect future economic benefits from non-profitable fields and recoverable amounts of oil fields were nil as at 31 December 2019 and 2018.

### 16. Intangible assets other than goodwill

Movement of intangible assets other than goodwill and related accumulated amortization was as follows:

	Land and property rights	Water rights	Trade name	Customer relationship	Licence	Other intangible assets	Total
<b>Cost</b>							
At 1 January 2018	165	171	33	327	105	202	1,003
Additions	-	-	-	-	-	48	48
Acquisitions through business combinations (Austrian Business) (Note 39)	-	-	9	1	-	1	11
Acquisitions through business combinations (APMT Business) (Note 39)	-	-	-	-	-	58	58
Disposal	-	-	-	-	-	(2)	(2)
Translation to presentation currency	(38)	(49)	(10)	(26)	-	(8)	(131)
At 31 December 2018	127	122	32	302	105	299	987
Additions	-	-	-	-	1	51	52
Acquisitions through business combinations (Note 39)	-	-	-	-	447	7	454
Transfers to right-of-use asset	(21)	-	-	-	-	-	(21)
Disposal	-	-	-	-	-	(57)	(57)
Translation to presentation currency	(18)	(13)	(3)	(4)	(5)	(1)	(44)
At 31 December 2019	88	109	29	298	548	299	1,371
<b>Amortization and impairment</b>							
At 1 January 2018	(41)	(37)	-	(97)	-	(89)	(264)
Amortization charge for the year (Note 29)	(3)	(3)	(2)	(13)	-	(22)	(43)
Translation to presentation currency	9	11	-	11	-	3	34
At 31 December 2018	(35)	(29)	(2)	(99)	-	(108)	(273)
Amortization charge for the year (Note 29)	(2)	(2)	(2)	(13)	(17)	(25)	(61)
Translation to presentation currency	11	3	-	2	1	1	18
At 31 December 2019	(26)	(28)	(4)	(110)	(16)	(132)	(316)
<b>Net book value</b>							
At 1 January 2018	124	134	33	230	105	113	739
At 31 December 2018	92	93	30	203	105	191	714
At 31 December 2019	62	81	25	188	532	167	1,055

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 16. Intangible assets other than goodwill (continued)

At 31 December 2019, carrying value of intangible assets included licence of "Umid Babek Exploration and Production Company" ("UBEP") in the amount of AZN 105 (31 December 2018: AZN 105) and trade name of Petkim in the amount of AZN 21 (31 December 2018: AZN 23) acquired through business combination in August 2017 and May 2008, respectively. These intangible assets have indefinite useful life and were tested for impairment as part of recoverability analysis of related CGUs (Note 39).

During 2019, total amortization expense amounting to AZN 61 (2018: AZN 43) have been allocated to general administrative and research and development expenses by AZN 25 (2018: AZN 22), cost of sales by AZN 31 (2018: AZN 16) and to distribution expenses by AZN 5 (2018: AZN 5).

### Rights and computer software

Software is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful lives of such assets. Land property rights comprise the rights over the general infrastructure. Land property rights obtained at the acquisition of Petkim Petrokimya Holding A.Ş. ("Petkim") were initially recognized at their fair values in accordance with IFRS 3 as at 30 May 2008 and amortised over their remaining useful lives commencing from the date of acquisition, except for the water transmission line which is not amortised as it is deemed to have an indefinite useful life.

### Customer relationships

Customer relationships acquired as part of net assets of Petkim were initially recognized at their fair values in accordance with IFRS 3 as at 30 May 2008 and amortised over their remaining useful lives of 22 years commencing from the date of the acquisition.

Customer relationships acquired as part of net assets of SOCAR Switzerland were initially recognized at their fair values in accordance with IFRS 3 as at 30 June 2012 and amortised over their remaining useful lives commencing from the date of acquisition. The estimated useful life of retail card customers is 18 years, retail distribution network and fuel customers are 30 years.

### Petkim trade name

Petkim trade name acquired at the Petkim acquisition was initially recognized at its fair value in accordance with IFRS 3 as at 30 May 2008. Petkim trade name is not amortised as it is deemed to have an indefinite useful life.

### Water rights

Water rights acquired with the Petkim acquisition were initially recognized at their fair value in accordance with IFRS 3 as at 30 May 2008 and amortised over their remaining useful lives of 47 years commencing from the date of the acquisition.

## 17. Investments in joint ventures

The table below summarizes movements in the carrying amount of the Group's investment in joint ventures:

	2019	2018
Carrying amount at 1 January	5,301	5,022
Additions to investments in joint ventures	103	194
Share of after-tax results of joint ventures	14	213
Dividends received from joint ventures	(28)	(117)
Derecognition of joint ventures	(15)	-
Exchange differences	20	(30)
Other	3	19
<b>Carrying amount at 31 December</b>	<b>5,398</b>	<b>5,301</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 17. Investments in joint ventures (continued)

At 31 December 2019, the summarized financial information of the Group's principal joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR AQS	Azerbaijan Rigs	SOCAR CAPE	STYAS
<b>Country of incorporation</b>	<b>Azerbaijan</b>	<b>Azerbaijan</b>	<b>Azerbaijan</b>	<b>Azerbaijan</b>	<b>Azerbaijan</b>	<b>Azerbaijan</b>	<b>Turkey</b>
Current assets	68	163	99	499	84	59	2,195
<i>including cash and cash equivalents</i>	9	43	-	-	69	21	359
Non-current assets	65	23	22	229	939	11	13,547
Current liabilities	(43)	(77)	(80)	(324)	(9)	(17)	(2,948)
<i>including current financial liabilities (except trade and other payables and provisions)</i>	-	(30)	-	(87)	-	-	(575)
Non-current liabilities	-	-	(8)	(68)	(19)	-	(4,666)
<i>including non-current financial liabilities (except other payables and provisions)</i>	-	-	(8)	(35)	-	-	(4,664)
<b>Net assets</b>	<b>90</b>	<b>109</b>	<b>33</b>	<b>336</b>	<b>995</b>	<b>53</b>	<b>8,128</b>
Proportion of the Group's ownership	40%	60%	51%	13.4%	10%	51%	60%
<b>Interest in the net assets</b>	<b>36</b>	<b>65</b>	<b>17</b>	<b>45</b>	<b>100</b>	<b>27</b>	<b>4,877</b>
Adjustments	3	-	1	-	(1)	1	183*
<b>Carrying value</b>	<b>39</b>	<b>65</b>	<b>18</b>	<b>45</b>	<b>99</b>	<b>28</b>	<b>5,060</b>
Dividends received	(9)	(13)	-	-	(2)	-	-

\* The adjustment includes additional contributions in share capital of Group's joint ventures, which is represented by inception-to-date commission paid on letter of credit in the amount of AZN 163. Remaining amount of AZN 20 represents over-financing by the Group since the other shareholder did not make capital injections in line with its proportionate shareholding interest.

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR AQS	Azerbaijan Rigs	SOCAR CAPE	STYAS
Revenue	60	206	166	275	98	95	-
Cost of sales	(28)	(187)	(139)	(207)	(34)	(57)	-
<i>including depreciation</i>	(6)	(10)	(3)	(22)	(33)	-	-
General and administrative expenses	-	(7)	(3)	(19)	-	(5)	(128)
Other income	-	-	-	11	-	-	191
Other expense	-	(1)	(9)	(2)	(81)	-	(219)
Forex gain (loss)	-	(1)	-	1	-	-	-
Interest revenue calculated using effective interest method	-	-	-	-	-	-	71
Finance costs	-	-	(1)	(4)	-	-	(121)
<b>Profit/(loss) before tax</b>	<b>32</b>	<b>10</b>	<b>14</b>	<b>55</b>	<b>(17)</b>	<b>33</b>	<b>(206)</b>
Income tax (expense)/benefit	(7)	(4)	(3)	(14)	(9)	(4)	152
<b>Profit/(loss) for the year</b>	<b>25</b>	<b>6</b>	<b>11</b>	<b>41</b>	<b>(26)</b>	<b>29</b>	<b>(54)</b>
<b>Group's share of profit/(loss) for the year</b>	<b>10</b>	<b>4</b>	<b>6</b>	<b>5</b>	<b>(3)</b>	<b>15</b>	<b>(32)</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 17. Investments in joint ventures (continued)

At 31 December 2019, the Group's interests in other joint ventures that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Interest held	Country of incorporation
Oil and Gas ProServ LLC	19	-	(7)	(3)	4	1	30%	Azerbaijan
Caspian Shipyard Company	-	-	-	-	-	(1)	20%	Azerbaijan
Sarmatia LLC	1	-	(1)	-	-	-	27%	Poland
SOCAR Baglan MMC	1	14	(13)	(6)	-	-	51%	Azerbaijan
SOCAR Foster Wheeler Engineering	4	-	(2)	-	17	1	65%	Azerbaijan
SOCAR KBR	87	-	(74)	-	186	11	51%	Azerbaijan
SOCAR Daigic MMC	10	10	(2)	(15)	17	2	51%	Azerbaijan
AAS-Ekol	3	-	(1)	-	8	2	48%	Azerbaijan
SOCAR Uniper	15	64	(42)	(11)	42	5	51%	Azerbaijan
SOCAR Fugro	15	-	(8)	-	16	-	51%	Azerbaijan
SOCAR Construction	1	8	(1)	-	-	(1)	97%	Azerbaijan
Caspian Innovation Center	20	-	(16)	-	27	3	90%	Azerbaijan
SOCAR Petrofac	-	-	(2)	-	1	(2)	51%	Azerbaijan
Caspian Geo	33	-	(25)	-	39	8	51%	Azerbaijan
SOCAR-Nefteqazstroy MMC	2	-	-	-	2	1	25%	Azerbaijan
Nefteqaztexnologiya MMC	-	-	-	-	-	-	50%	Uzbekistan
<b>Total</b>	<b>211</b>	<b>96</b>	<b>(194)</b>	<b>(35)</b>	<b>359</b>	<b>30</b>		

At 31 December 2018, the summarized financial information of the Group's principal joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

Country of incorporation	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR AQS	Azerbaijan Rigs	SOCAR CAPE	STYAS
	Azerbaijan	Azerbaijan	Azerbaijan	Azerbaijan	Azerbaijan	Azerbaijan	Turkey
Current assets including cash and cash equivalents	64	175	74	379	109	25	904
Non-current assets	9	28	3	4	3	18	405
Current liabilities including current financial liabilities (except trade and other payables and provisions)	62	20	11	227	1,029	16	12,281
Non-current liabilities including non-current financial liabilities (except other payables and provisions)	(36)	(71)	(63)	(241)	(3)	(16)	(704)
	-	-	-	(29)	(8)	(1)	(356)
	-	-	-	(68)	(8)	-	(4,456)
	-	-	-	(44)	-	-	(4,454)
<b>Net assets</b>	<b>90</b>	<b>124</b>	<b>22</b>	<b>297</b>	<b>1,127</b>	<b>25</b>	<b>8,025</b>
Proportion of the Group's ownership interest in the net assets	40%	60%	51%	13.4%	10%	51%	60%
	36	74	11	40	113	13	4,815
Adjustments	2	-	2	-	(1)	-	154*
<b>Carrying value</b>	<b>38</b>	<b>74</b>	<b>13</b>	<b>40</b>	<b>112</b>	<b>13</b>	<b>4,969</b>
Dividends received	(8)	(69)	(15)	(16)	-	(5)	-

\* The adjustment includes additional contributions in share capital of Group's joint ventures, which is represented by inception-to-date commission paid on letter of credit in the amount of AZN 136. Remaining amount of AZN 18 represents over-financing by the Group since the other shareholder did not make capital injections in line with its proportionate shareholding interest.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 17. Investments in joint ventures (continued)

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR AQS	Azerbaijan Rigs	SOCAR CAPE	STYAS
Revenue	67	512	175	576	89	89	-
Cost of sales	(29)	(397)	(141)	(339)	(41)	(71)	-
including depreciation	(5)	(11)	(1)	(18)	(31)	-	-
General and administrative expenses	-	(6)	(4)	(15)	-	(5)	(65)
Other income	1	-	-	-	-	-	10
Other expense	-	(1)	(13)	(2)	-	-	-
Forex gain (loss)	-	-	-	1	-	-	(25)
Interest revenue calculated using effective interest method	-	1	-	-	-	-	61
Finance costs	-	-	-	(36)	-	(15)	(12)
<b>Profit/(loss) before tax</b>	<b>39</b>	<b>109</b>	<b>17</b>	<b>185</b>	<b>48</b>	<b>(2)</b>	<b>(31)</b>
Income tax (expense)/benefit	(8)	(11)	(8)	(38)	(9)	(1)	235
<b>Profit/(loss) for the year</b>	<b>31</b>	<b>98</b>	<b>9</b>	<b>147</b>	<b>39</b>	<b>(3)</b>	<b>204</b>
<b>Group's share of profit/(loss) for the year</b>	<b>12</b>	<b>59</b>	<b>5</b>	<b>20</b>	<b>4</b>	<b>(2)</b>	<b>122</b>

At 31 December 2018, the Group's interests in other joint ventures that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non- current assets	Current liabilities	Non- current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Oil and Gas ProServ LLC	18	-	(6)	(3)	2	-	30%	Azerbaijan
Caspian Shipyard Company	2	-	-	-	-	(2)	20%	Azerbaijan
Samatia LLC	1	-	(1)	-	-	(1)	27%	Poland
SOCAR Baglan LLC	1	14	(13)	(6)	-	-	51%	Azerbaijan
SOCAR Foster Wheeler Engineering	2	2	(4)	-	12	1	65%	Azerbaijan
SOCAR KBR	56	-	(50)	-	121	6	51%	Azerbaijan
SOCAR Dalgic LLC	5	13	(2)	(16)	9	-	51%	Azerbaijan
AAS – Ekol	4	-	(1)	-	9	3	48%	Azerbaijan
SOCAR Uniper	20	9	(8)	-	40	4	51%	Azerbaijan
SOCAR Fugro	13	1	(8)	-	33	6	51%	Azerbaijan
SOCAR Construction LLC	1	9	(1)	-	-	(1)	97%	Azerbaijan
Caspian Innovation Center	12	-	(10)	-	13	1	90%	Azerbaijan
SOCAR Turkey LNG	15	15	(14)	(2)	26	1	45%	Turkey
<b>Total</b>	<b>150</b>	<b>63</b>	<b>(118)</b>	<b>(27)</b>	<b>265</b>	<b>18</b>		

During 2019, the Group has made additional contributions in share capital of its joint venture, SOCAR Turkey Yatırım A.Ş. ("STYAS") in the amount AZN 76 (2018: AZN 152).

In 2015, the Group signed letters of credit agreements in relation to the construction of Star Refinery complex (subsidiary of STYAS). Commission and interest expenses paid by the Group in total amount of AZN 27 (2018: AZN 26) were recognized as additional investment in STYAS.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 18. Investments in associates

The table below summarizes movements in the carrying amount of the Group's investment in associates.

	2019	2018
<b>Carrying amount at 1 January</b>	<b>4,359</b>	<b>4,571</b>
Additions to investments in associates	-	15
Share of after-tax results of associates	(5)	24
Dividends received from associates	(126)	(99)
Exchange differences	(3)	(32)
Other	(17)	(120)
<b>Carrying amount at 31 December</b>	<b>4,208</b>	<b>4,359</b>

At 31 December 2019, the summarized financial information of the Group's principal associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

2019	SCPC	BTC Co	SGC
<b>Country of incorporation</b>	<b>Cayman Islands</b>	<b>Cayman Islands</b>	<b>Azerbaijan</b>
Current assets	281	171	558
Non-current assets	8,677	8,476	20,955
Current liabilities	(256)	(773)	(552)
Non-current liabilities	(381)	(328)	(15,506)
<b>Net assets attributable to the Group</b>	<b>8,321</b>	<b>7,546</b>	<b>3,124</b>
Net assets attributable to the NCI	-	-	2,331
Proportion of the Group's ownership interest in the net assets	10%	25%	49%
<b>Adjustments</b>	<b>(1)</b>	<b>-</b>	<b>(77)*</b>
<b>Carrying value</b>	<b>831</b>	<b>1,887</b>	<b>1,454</b>
<b>Dividends received</b>	<b>(69)</b>	<b>(53)</b>	<b>-</b>

\* At 31 December 2019, the adjustment includes the amount of AZN 34, which represents over-financing to SGC by the Group and AZN 16 represents the Group's share in loss on sale of its additional interests in Shah Deniz PSA to SGC in 2014. In addition, the amount of AZN 127 represents elimination of unrealised gain arisen from sale of SGC's 7% equity interest in TANAP Doğalgaz İletim A.Ş. in 2018.

2019	SCPC	BTC Co	SGC
Revenue	997	1,389	769
Cost of sales	(426)	(873)	(420)
General and administrative expenses	-	-	(162)
Distribution expenses	-	-	(9)
Other expenses	-	-	(2)
Other income	-	10	41
Interest revenue calculated using effective interest method	2	-	76
Finance costs	-	(41)	(748)
Forex loss	-	-	(5)
Share of results of associates	-	-	(15)
<b>Profit/(loss) before tax</b>	<b>573</b>	<b>485</b>	<b>(475)</b>
Income tax expense	(91)	-	(2)
<b>Profit/(loss) for the year</b>	<b>482</b>	<b>485</b>	<b>(477)</b>
<b>Loss attributable to NCI</b>	<b>-</b>	<b>-</b>	<b>(121)</b>
<b>Group's share of profit/(loss) for the year</b>	<b>48</b>	<b>121</b>	<b>(174)</b>
Adjustments	(1)	-	-
<b>Total</b>	<b>47</b>	<b>121</b>	<b>(174)</b>



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 18. Investments in associates (continued)

At 31 December 2019, the Group's interests in other associates that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	Interest held	Country of incorporation
Caspian Geophysical Company	2	(1)	2	1	45%	Azerbaijan
AzLab	5	(5)	6	-	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics LLC	3	(2)	-	-	34%	Azerbaijan
Ateshgah Insurance Company	41	(28)	39	1	10%	Azerbaijan
Caspian Pipe Coatings LLC	24	(9)	24	2	50%	Azerbaijan
Tankanlagen Mellingen AG ("TAMAG")	13	(3)	-	-	33%	Switzerland
Tanklager Taegerschen AG ("TLT")	2	-	-	-	21%	Switzerland
SOGEP AG	6	(5)	-	-	34%	Switzerland
UBAG AG	7	(5)	-	-	24%	Switzerland
SAPPRO SA	21	(20)	-	-	17%	Switzerland
SARACO SA	38	(33)	-	-	20%	Switzerland
Azerbaijan Gas Supply Company	555	(555)	4,809	-	28%	Cayman Islands
Electrogas Malta	1,114	(1,279)	352	(48)	33%	Malta
Octogone	45	(50)	5	(1)	20%	Benin
CI GNL	3	(36)	-	(5)	26%	Ivory Coast
<b>Total</b>	<b>1,879</b>	<b>(2,031)</b>	<b>5,237</b>	<b>(50)</b>		

At 31 December 2018, the summarized financial information of the Group's principal associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

2018	SCPC	BTC Co	SGC
Country of incorporation	Cayman Islands	Cayman Islands	Azerbaijan
Current assets	228	198	1,438
Non-current assets	8,921	8,770	20,465
Current liabilities	(215)	(941)	(804)
Non-current liabilities	(409)	(752)	(15,293)
<b>Net assets attributable to the Group</b>	<b>8,525</b>	<b>7,275</b>	<b>3,523</b>
Net assets attributable to the NCI	-	-	2,283
Proportion of the Group's ownership	10%	25%	49%
<b>Interest in the net assets</b>	<b>853</b>	<b>1,819</b>	<b>1,726</b>
Adjustments	(2)	-	(77)*
<b>Carrying value</b>	<b>851</b>	<b>1,819</b>	<b>1,649</b>
<b>Dividends received</b>	<b>(3)</b>	<b>(95)</b>	<b>-</b>

\* At 31 December 2018, the adjustment includes the amount of AZN 34, which represents over-financing to SGC by the Group and AZN 16 represents the Group's share in loss on sale of its additional interests in Shah Deniz PSA to SGC in 2014. In addition, the amount of AZN 127 represents elimination of unrealised gain arisen from sale of SGC's 7% equity interest in TANAP Dogalgaz Iletim A.S.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 18. Investments in associates (continued)

2018	SCPC	BTC Co	SGC
Revenue	750	1,513	435
Cost of sales	(240)	(859)	(226)
General and administrative expenses	-	-	(76)
Distribution expenses	-	-	(7)
Other income	-	-	34
Interest revenue calculated using effective interest method	1	1	59
Finance costs	-	(86)	(596)
Forex loss	-	-	(6)
Share of results of associates	-	-	(6)
<b>Profit/(loss) before tax</b>	<b>511</b>	<b>569</b>	<b>(389)</b>
Income tax expense	(77)	-	(10)
<b>Profit/(loss) for the year</b>	<b>434</b>	<b>569</b>	<b>(399)</b>
<b>Loss attributable to NCI</b>	<b>-</b>	<b>-</b>	<b>(72)</b>
<b>Group's share of profit/(loss) for the year</b>	<b>43</b>	<b>142</b>	<b>(160)</b>

At 31 December 2018, the Group's interests in other associates that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	Interest held	Country of incorporation
Caspian Geophysical Company	9	(1)	-	(3)	45%	Azerbaijan
AzLab	5	(4)	4	-	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics LLC	3	(2)	4	-	34%	Azerbaijan
Ateshgah Insurance Company	42	(30)	41	(1)	10%	Azerbaijan
Caspian Pipe Coatings LLC	17	(2)	7	1	50%	Azerbaijan
Tankanlagen Mellingen AG ("TAMAG")	13	(3)	-	-	33%	Switzerland
Tanklager Taegerschen AG ("TLT")	2	-	-	-	21%	Switzerland
SOGEP AG	6	(5)	-	-	34%	Switzerland
UBAG AG	7	(5)	-	-	24%	Switzerland
SAPPRO SA	20	(20)	-	-	13%	Switzerland
SARACO SA	38	(32)	-	-	20%	Switzerland
Azerbaijan Gas Supply Company	572	(572)	3,899	-	28%	Cayman Islands
Electrogas Malta	1,128	(1,245)	380	(32)	33%	Malta
Octogone	50	(53)	5	(4)	20%	Benin
CI GNL	2	(31)	-	(10)	26%	Ivory Coast
<b>Total</b>	<b>1,914</b>	<b>(2,005)</b>	<b>4,340</b>	<b>(49)</b>		

### 19. Trade and other payables

	2019	2018
Trade payables	6,922	7,450
Accrued liabilities	3,164	3,198
Other payables	1,035	994
<b>Total financial payables</b>	<b>11,121</b>	<b>11,642</b>
Payable to employees	207	124
Liabilities for overlift of oil	6	14
<b>Total trade and other payables</b>	<b>11,334</b>	<b>11,780</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 19. Trade and other payables (continued)

Financial payables in the amount of AZN 10,078 (31 December 2018: AZN 11,242) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for crude oil, oil products, gas, construction, drilling, transportation and utilities provided by vendors of the Group.

Accrued liabilities of the Group represent obligations incurred for the purchase of crude oil and oil products, for which invoices have not been received yet.

Liabilities for overlift relate to the oil lifted by the Group in excess of its participating interest in ACG PSA and Shah Deniz PSA and thus, represent the Group's obligation to deliver physical quantities of oil out of its share of future production.

The Group acquired trade and other payables with the fair values of AZN 313 as result of business combination (Note 39).

### Contract liabilities

Contract liabilities are mainly represented by advances for construction projects and sale of goods and services in the amount of AZN 187 (31 December 2018: AZN 142) and AZN 330 (31 December 2018: AZN 155), respectively.

The Group had AZN 305 contract liabilities as of 31 December 2018. During 2019, contract liabilities balance increased by AZN 591 and AZN 28 due to additions mainly from construction contracts and acquisition of new subsidiaries. Upon satisfaction of performance obligations, AZN 399 of contract liabilities was released to statement of profit or loss and other comprehensive income and recognized as revenue during 2019.

## 20. Borrowings

At 31 December 2019, short-term borrowings and current portion of long-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity	Total borrowed in original currency	Balance as at 31 December 2019
Short-term facilities in USD	1.95-17.50%	January 2020 – December 2020	2,392	2,342
Short-term facilities in TRY	8.47-44.17%	January 2020 – December 2020	1,146	293
Short-term facilities in GEL	11-14%	January 2020 – December 2020	486	190
Short-term facilities in other currencies	2.50-19%	January 2020 – December 2020	711	136
Current portion of long-term borrowings			-	1,212
<b>Total short-term borrowings and current portion of long-term borrowings</b>			<b>-</b>	<b>4,173</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 20. Borrowings (continued)

At 31 December 2019, long-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate*	Maturity	Balance as at 31 December 2019	
			Non-current portion	Current portion
USD 1,000 million	4.75%	March 2023	1,204	24
USD 750 million	6.95%	March 2030	1,235	27
USD 565 million	3.80%	September 2028	854	115
USD 500 million	5.88%	January 2023	848	21
USD 427 million	LIBOR + 2.70%	February 2024	716	12
USD 489 million	LIBOR + 6.95%	July 2025	666	101
USD 238 million	LIBOR + 4%	December 2029	438	-
USD 242 million	4.60%	December 2029	414	-
EUR 251 million	EURIBOR + 3.03%	June 2028	368	54
USD 193 million	LIBOR + 4%	December 2029	346	-
EUR 249 million	EURIBOR + 0.95%	June 2028	337	53
USD 212 million	LIBOR + 4.675%	March 2028	317	5
USD 250 million	LIBOR + 2.20%	November 2023	294	26
USD 200 million	LIBOR + 1.335%	December 2027	258	14
USD 150 million	LIBOR + 2.50%	November 2024	252	1
USD 150 million	LIBOR + 2.70%	June 2024	252	-
USD 485 million	LIBOR + 1%	December 2024	236	66
USD 110 million	4.80%	December 2023	187	-
USD 260 million	LIBOR + 4.30% + 1.25%	December 2022	172	-
USD 100 million	5.00%	October 2021	170	2
TRY 600 million	LIBOR + 5.2%	June 2027	165	6
USD 90 million	4.80%	August 2026	153	2
JPY 15,398 million	1.50%	April 2039	151	8
USD 300 million	LIBOR + 3.25%	March 2022	133	151
USD 77 million	4.80%	December 2023	130	1
AZN 460 million	4.00%	July 2022	125	70
USD 78 million	4.00%	December 2027	103	67
USD 68 million	LIBOR + 3%	January 2026	97	9
USD 52 million	4.40%	May 2024	88	-
USD 100 million	LIBOR + 3.25%	April 2022	84	58
USD 100 million	LIBOR + 3.25%	February 2022	72	51
USD 101 million	LIBOR + 2.3%	December 2021	67	37
AZN 144 million	0.16% (0.15% + 0.01%)	January 2045	56	11
USD 65 million	LIBOR + 4.95%	December 2024	53	18
USD 55 million	LIBOR + 5.25%	September 2024	44	16
CHF 22 million	LIBOR + 0.0714% or 0%	July 2021	40	-
USD 29 million	4.00%	December 2027	38	25
USD 38 million	4.01%	December 2023	34	10
EUR 35 million	LIBOR + 0.072%	November 2025	23	8
EUR 20 million	1.64%	October 2023	18	6
CHF 10 million	3.00%	October 2027	17	-
USD 24 million	4.26%	December 2022	16	8
GEL 30 million	12.50%	June 2023	15	3
AZN 350 million	3.00%	June 2023	13	100
USD 20 million	LIBOR + 2%	April 2023	11	-
GEL 18 million	13.50%	November 2024	9	2
GEL 11 million	13.33%	September 2023	6	-
GEL 10 million	13.50%	November 2022	6	-
USD 5 million	4.26%	December 2022	4	2
USD 6 million	4.26%	December 2022	4	2
EUR 2 million	EURIBOR + 2.375%	March 2031	3	-
USD 4 million	4.26%	December 2022	3	1
CHF 2 million	0.85%	December 2031	3	-
Other long-term borrowings			21	19
<b>Total long-term borrowings</b>			<b>11,369</b>	<b>1,212</b>

(\*) LIBOR and EURIBOR vary from 3 to 12 months.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 20. Borrowings (continued)

At 31 December 2018, short-term borrowings and long-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity	Total borrowed in original currency	Balance as at 31 December 2018
Short-term facilities in USD	2.48-8%	January 2019 – December 2019	2,174	2,502
Short-term facilities in TRY	16.5-28.5%	January 2019 – December 2019	126	42
Short-term facilities in GEL	12-14%	January 2019 – December 2019	136	76
Short-term facilities in other currencies	4.9-18%	January 2019 – December 2019	531	149
Current portion of long-term borrowings			-	1,244
<b>Total short-term borrowings and current portion of long-term borrowings</b>			<b>-</b>	<b>4,013</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

**20. Borrowings (continued)**

At 31 December 2018, long-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate*	Maturity	Balance as at 31 December 2018	
			Non-current portion	Current portion
USD 1,000 million	4.75%	March 2023	1,234	22
USD 750 million	6.95%	March 2030	1,235	27
USD 500 million	5.88%	January 2023	845	21
USD 489 million	LIBOR + 6.95%	July 2025	682	133
USD 238 million	LIBOR + 4%	December 2029	412	-
EUR 251 million	EURIBOR + 3.03%	June 2028	434	55
USD 260 million	LIBOR + 4.3% + 1.25%	December 2022	399	34
EUR 249 million	EURIBOR + 0.95%	June 2028	392	54
AZN 600 million	4%	July 2022	380	71
USD 300 million	LIBOR + 3.25%	March 2022	361	153
USD 212 million	LIBOR + 4.675%	March 2028	321	4
USD 250 million	LIBOR + 2.2%	November 2023	317	2
USD 485 million	LIBOR + 1%	December 2024	294	135
USD 200 million	LIBOR + 1.335%	December 2027	272	14
USD 100 million	5%	October 2021	170	2
USD 78 million	4%	December 2027	163	-
JPY 15,398 million	1.5%	April 2039	157	8
USD 100 million	LIBOR + 3.25%	April 2022	141	30
USD 77 million	4.8%	December 2023	131	-
USD 100 million	LIBOR + 3.25%	February 2022	122	53
USD 68 million	LIBOR + 3%	January 2026	106	9
USD 101 million	LIBOR + 2.8%	December 2021	104	34
AZN 350 million	3%	June 2023	100	50
USD 50 million	4.81%	September 2020	85	-
USD 65 million	LIBOR + 4.95%	December 2024	66	18
USD 29 million	4%	December 2027	61	-
EUR 35 million	LIBOR + 0.063%	December 2026	59	8
USD 100 million	LIBOR + 2.33%	June 2020	57	57
AZN 144 million	0.16% (0.15% + 0.01%)	January 2045	56	6
USD 55 million	LIBOR + 5.25%	September 2024	55	16
EUR 35 million	LIBOR + 0.072%	November 2025	51	8
USD 38 million	4.01%	December 2023	44	10
CHF 22 million	LIBOR + 0.0714% or 0%	July 2021	34	-
EUR 40 million	EURIBOR + 2.25%	December 2020	26	26
USD 100 million	LIBOR + 2.4%	May 2020	25	49
USD 50 million	LIBOR + 2.2%	July 2020	24	25
USD 24 million	4.26%	December 2022	24	8
EUR 20 million	1.64%	October 2023	24	6
EUR 20 million	LIBOR + 0.872%	September 2023	24	6
USD 52 million	6%	January 2020	21	-
CHF 10 million	3%	October 2027	17	-
USD 10 million	5%	October 2020	17	-
USD 20 million	LIBOR + 2%	April 2023	10	-
GEL 46 million	14%	July 2020	9	16
USD 5 million	5%	June 2020	9	-
EUR 12 million	LIBOR + 3%	March 2022	8	3
GEL 51 million	11%	July 2020	8	12
GEL 11 million	11.5%	February 2020	7	-
EUR 7 million	EURIBOR + 1.75%	November 2028	6	1
USD 5 million	4.26%	December 2022	6	2
USD 6 million	4.26%	December 2022	5	2
EUR 7 million	LIBOR + 3%	March 2022	4	2
USD 35 million	LIBOR + 2.35%	April 2020	4	9
USD 4 million	4.26%	December 2022	4	1
GEL 35 million	11.25%	April 2020	4	11
USD 4 million	4.26%	December 2022	4	1
EUR 5 million	LIBOR + 3%	March 2022	3	1
GEL 10 million	5% + ref. rate	November 2020	3	3
GEL 15 million	11.25%	July 2020	3	5
GEL 10 million	14%	October 2020	3	3
Other long-term borrowings			17	18
<b>Total long-term borrowings</b>			<b>9,659</b>	<b>1,244</b>

(\*) LIBOR and EURIBOR vary from 3 to 12 months.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 21. Taxes payable

	2019	2018
Payable to SOFAZ	255	255
Corporate income tax payable	194	219
Social security contributions	16	3
Other taxes payable	107	213
<b>Total taxes payable</b>	<b>572</b>	<b>690</b>

In 2008, in addition to regular export tax the Group was liable to transfer a certain share of proceeds from sales of crude oil priced at the level exceeding the price determined by the government (USD 50 per barrel for 2009) to SOFAZ. No such taxes were imposed on the Group in 2009-2019.

Taxpayer components of the Group operating under the Azerbaijani tax legislation are eligible for offsetting their taxes payable with taxes receivable and tax prepayments. Other taxes payable balance comprises VAT, property tax, excise tax, personal income tax offset with tax receivables and prepayments.

## 22. Asset retirement obligations

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and storage facilities and environmental clean-up. Movements in provisions for the related asset retirement obligations are as follows:

	Note	2019	2018
<b>Carrying amount at 1 January</b>		<b>1,079</b>	<b>1,067</b>
Additions		26	87
Unwinding of the present value discount	32	71	65
Effect of change in estimates		369	(140)
<b>Carrying amount at 31 December</b>		<b>1,545</b>	<b>1,079</b>

Asset retirement obligations related to the PSAs are determined with reference to capital costs incurred by contractor parties and they are limited to the maturities of respective PSAs.

The maximum costs in respect of asset retirement obligations of the Group mainly represented by the following oil and gas exploration, evaluation and development fields in the Azerbaijan Republic:

The maximum estimated cost to Azneft PU to abandon the production facilities employed was AZN 1,472 as at 31 December 2019 (31 December 2018: AZN 1,913). The Company used 6.93 per cent rate to discount this obligation (31 December 2018: 8.47 per cent).

The maximum estimated cost to AzACG to abandon the production facilities employed in ACG project was AZN 1,688 as at 31 December 2019 (31 December 2018: AZN 1,629). The Company used 4.90 per cent rate to discount this obligation (31 December 2018: 6.41 per cent).

The maximum estimated cost to AzSD to abandon the production facilities employed in Shah Deniz project was AZN 548 as at 31 December 2019 (31 December 2018: AZN 500). The Company used 4.76 per cent rate to discount this obligation (31 December 2018: 6.26 per cent).

The maximum estimated cost to the Group to abandon the production facilities employed in Absheron project was AZN 191 as at 31 December 2019 (31 December 2018: AZN 147). The Company used 4.76 per cent rate to discount this obligation (31 December 2018: 6.26 per cent).

The maximum estimated cost to the Group to abandon the production facilities employed in Umid-Babek Exploration and Production project was AZN 96 as at 31 December 2019 (31 December 2018: AZN 90). The Company used 4.76 per cent rate to discount this obligation (31 December 2018: 6.26 per cent).

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 22. Asset retirement obligations (continued)

Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs amounting to AZN 777 at 31 December 2019 (31 December 2018: AZN 461) are included in oil and gas properties and equipment.

Asset retirement obligations are measured by the Group using the present value of the estimated future costs of decommissioning of the assets. Management determines discount rates that reflect current market assessments of the time value of money and where appropriate, the risks specific to the liability. Discount rates are reviewed at each reporting date and used for discounting abandonment and site restoration costs. The discount rate used as at 31 December 2019 was in range of 4.76-6.93 per cent (2018: 6.26-8.47 per cent).

If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 283 lower / AZN 401 higher, respectively.

The following inflation rates were applied in calculation of discounted cash flows in respect of abandonment and site restoration costs:

Year	2020	2021	2022	2023	2024	2025 and later
Inflation rate	3.16%	3.80%	3.83%	3.93%	3.83%	4.03%

If the estimated inflation rates used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 225 higher / 132 AZN lower, respectively.

While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

## 23. Other provisions for liabilities and charges

Movements in other provisions for liabilities and charges are as follows:

	Note	Environmental obligations	Disability payments	Other Provisions	Total
<b>Carrying amount at 1 January 2018</b>		<b>58</b>	<b>106</b>	<b>-</b>	<b>164</b>
Additions		84	3	15	102
Unused amount reversed		(29)	-	-	(29)
Utilisation		(24)	(16)	-	(40)
Unwinding of the present value discount	32	4	8	-	12
Effect of change in estimates		-	(1)	-	(1)
<b>Carrying amount at 31 December 2018</b>		<b>93</b>	<b>100</b>	<b>15</b>	<b>208</b>
<i>Of which:</i>					
Current		26	15	15	56
Non-current		67	85	-	152
<b>Carrying amount at 1 January 2019</b>		<b>93</b>	<b>100</b>	<b>15</b>	<b>208</b>
(Disposals)/additions		(5)	37	27	59
Utilisation		(19)	(19)	(20)	(58)
Unwinding of the present value discount	32	7	8	-	15
Effect of change in estimates		2	12	-	14
<b>Carrying amount at 31 December 2019</b>		<b>78</b>	<b>138</b>	<b>22</b>	<b>238</b>
<i>Of which:</i>					
Current		32	21	22	75
Non-current		46	117	-	163



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 23. Other provisions for liabilities and charges (continued)

#### Environmental obligation

In 2018, the Management approved Action Plan (2019-2023) in respect of environmental restoration related to expected damage and contamination caused to the environment as a result of activities within Absheron area. Management estimated the Group's environmental obligations based on historic trend of respective expenses and estimated production profile of the Group.

Environmental obligations are measured by the Group using the present value of the estimated future costs of environmental restorations. Management determines discount rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability as of the reporting date. The Group calculated the present value of the environmental obligation using a discount rate of 6.05 per cent (31 December 2018: 7.97 per cent).

If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the environmental provision would have been AZN 1 lower / AZN 1 higher, respectively.

#### Disability payment

The Group has an obligation to compensate its employees for the damage caused to their health at workplace up to January 2012 (payments to employees injured after January 2012 are made by insurance company, based on insurance contract), as well as to compensate dependants of died employees. The compensations provided are linked to the salaries paid to the affected employees. The Group calculated the present value of the disability payments to employees using a discount rate of 6.78 per cent (31 December 2018: 8.32 per cent). For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively. If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 8 lower / AZN 9 higher, respectively.

The inflation rates in Note 22 were applied to reflect the escalation in average salaries.

### 24. Deferred income

	2019	2018
Carrying amount at 1 January	69	104
Offset with tax overpayments	(11)	(29)
Released to the consolidated statement of profit or loss	(8)	(6)
Received during the year	20	-
<b>Carrying amount at 31 December</b>	<b>70</b>	<b>69</b>
<i>Of which:</i>		
Current	-	11
Non-current	70	58

#### Current

At 31 December 2018, current portion of deferred income represents government grants for the compensation of losses expected to be incurred from sale of natural gas and heating oil for the purpose of meeting local demand in the country.

#### Non-current

At 31 December 2019 and 2018, the non-current portion of deferred income mainly represents government grants obtained in 2006 for the purpose of gasification of Baku sub-urban area and regions of the Azerbaijan Republic.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 25. Other current and non-current liabilities

Other liabilities comprise the following:

	2019	2018
Liabilities under carried interest arrangements	582	566
Derivative liabilities	335	445
Long-term payables to the related party	103	137
Other liabilities	41	56
<b>Total other financial liabilities</b>	<b>1,061</b>	<b>1,204</b>
<i>Of which:</i>		
Current	324	355
Non-current	737	849
Net defined benefit liability	40	31
Contract liability	75	-
Other liabilities	29	30
<b>Total other non-current non-financial liabilities</b>	<b>144</b>	<b>61</b>
<b>Total other liabilities</b>	<b>1,205</b>	<b>1,265</b>

### Derivative liabilities

The Group has financial liabilities related to margin calls in the amount of AZN 32 (31 December 2018: AZN 47), unrealized losses on paper positions in the amount of AZN 108 (2018: AZN 228) and unrealized losses on physical positions in the amount of AZN 195 (2018: AZN 170). Current portion of these liabilities as of 31 December 2019 was AZN 306 (31 December 2018: AZN 355).

### Liabilities under carried interest arrangements

In February 2017, exploration and evaluation stage of Absheron PSA was completed successfully and the Group started to recognize liability with respect to its participating interest Absheron Offshore 2 PSA ("Absheron PSA") which was carried by other parties under the carried arrangement until the commencement of development stage. Pursuant to Absheron PSA, at 31 December 2019 the Group's carried liability under Absheron PSA was AZN 426 (31 December 2018: AZN 412).

### Provision for post-employment benefit – Defined benefit plan

Under *Turkish Labour Law*, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women). The provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	2019	2018
Discount rate (per cent)	3.5	5.00
Probability of retirement (per cent)	100	100

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 25. Other current and non-current liabilities (continued)

### Provision for post-employment benefit – Defined benefit plan (continued)

Movement of the net defined benefit liability was as follows:

	2019	2018
<b>Carrying amount at 1 January</b>	<b>31</b>	<b>42</b>
Actuarial loss	4	1
Payments during the year	(6)	(5)
Interest cost	13	3
Service cost	2	2
Translation to presentation currency	(4)	(12)
<b>Carrying amount at 31 December</b>	<b>40</b>	<b>31</b>

### Contract liability

The Group has contract liability in the amount of AZN 75 (31 December 2018: nil), which represents fees received for gasification works by Bursagaz and Kayserigaz.

## 26. Deferred acquisition consideration payable

At 31 December 2019, the Group had current deferred consideration payable in the amount of AZN 65 (31 December 2018: AZN 65) and AZN 65 (31 December 2018: AZN 65) for the purchase of remaining 49 per cent shares of SOCAR Petroleum CJSC and acquisition of SOCAR Trading, respectively.

Additionally, the Group had non-current deferred consideration payable in the amount of AZN 570 (31 December 2018: AZN 529) for the acquisition of 7 per cent equity interest in TANAP Doğalgaz İletim A.Ş. (Note 7).

## 27. Charter capital, additional paid-in capital, retained earnings and gain on sale of subsidiary share

### Charter capital

SOCAR as a holding company of the Group has a legal status of a state enterprise. The increase in charter capital was registered by Ministry of Economy of Azerbaijan Republic in the year ended 31 December 2019 and accordingly the additional paid in capital of AZN 176 was reclassified from additional paid in capital to the charter capital (31 December 2018: AZN 1,111).

### Additional paid-in capital ("APIC")

During the year ended 31 December 2019, the Government contributed to the charter capital of the Group in cash in the amount of AZN 453 (31 December 2018: AZN 1,190). Until registration of the increase in the charter capital this amount was included in APIC.

### Distribution to the Government

Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets), various government agencies and projects administered by the Government. During 2019 such direct cash transfers to the Government, financing (made in the form of payments to sub-contractors of governmental entities) and distribution of property, plant and equipment amounted to AZN 680, AZN 5 and nil respectively (31 December 2018: AZN 675, AZN 5 and AZN 5, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

## 27. Charter capital, additional paid-in capital, retained earnings and gain on sale of subsidiary share (continued)

### Acquisition of non-controlling interest in subsidiary

On 3 June 2019, the Group increased its ownership in SOCAR Polymer Investments LLC by 4.86 per cent through injection of capital and recognized gain in the amount of AZN 23 (USD 13 million) directly in equity. As a result, the Group's controlling ownership in SOCAR Polymer LLC increased from 52.15 per cent to 57.01 per cent.

On 28 October 2019, the Group increased its ownership in Baku Shipyard LLC by 17.26 per cent through debt to equity conversion and recognized loss in the amount of AZN 61 directly in equity. As a result, the Group's controlling ownership in Baku Shipyard LLC increased from 70.21 per cent to 87.47 per cent.

## 28. Analysis of revenue by categories

	2019	2018 (restated – Note 2)
Crude oil, net	51,121	58,363
Oil products, net	22,198	40,232
Natural gas	4,123	3,304
Petrochemicals	3,914	3,894
Rent income	416	396
Other revenue	1,980	1,573
<b>Total revenue</b>	<b>83,752</b>	<b>107,762</b>

Revenue from crude oil sales is stated net of export tax which is levied in the Azerbaijan Republic on the margins between the international market price and internal state-regulated price on crude oil. The difference between the market price and the internal state-regulated price is taxed at the rate of 30 per cent and the amount of tax is transferred to the State Budget.

Revenue from oil product sales is stated net of excise tax of AZN 468 (2018: AZN 456).

Revenue from sales of crude oil produced under ACG PSA and condensate produced under Shah Deniz PSA is not subject to excise tax mentioned above.

## 29. Analysis of expenses by nature

	Note	2019	2018 (restated – Note 2)
Raw materials and consumables used		73,971	98,391
Wages, salaries and social security costs		1,740	1,510
Depreciation of property, plant and equipment		1,603	1,391
Transportation and vehicle maintenance		1,084	1,183
Utilities expense		394	374
Repairs and maintenance expenses		358	331
Impairment of property, plant and equipment	15	286	161
Taxes other than on income		197	199
Mining tax		125	126
Depreciation of right-of-use assets	4	89	-
Change in other provisions for liabilities and charges		73	72
Amortization expense	16	61	43
ECL / (ECL reversal)		49	(85)
Other		1,351	1,267
<b>Total cost of sales, exploration and evaluation, distribution, general and administrative, ECL and other operating expenses</b>		<b>81,381</b>	<b>104,963</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 30. Other operating income

	Note	2019	2018
Government grant		35	214
Gain on reversal of impairment charge		-	187
Gain on termination of operation agreement	39	-	51
Fair value gain on equity instrument at FVPL		117	142
Gain on bargain purchase	39	19	-
Settlement of pre-existing relationship	39	-	170
Other		170	152
<b>Total other operating income</b>		<b>341</b>	<b>916</b>

### 31. Interest revenue calculated using effective interest rate and other finance income

#### Interest revenue calculated using effective interest rate method

	2019	2018
Interest income on time deposits and bank accounts	107	126
Other	56	58
<b>Total interest revenue calculated using effective interest rate method</b>	<b>163</b>	<b>184</b>

#### Other finance income

Other finance income represents realized income from interest rate swaps in the amount of AZN 47 (2018: AZN 28).

### 32. Finance costs

	Note	2019	2018
Interest expenses		1,029	1,049
Provisions for asset retirement obligations: unwinding of the present value discount	22	71	65
Environmental provision: unwinding of the present value discount	23	7	4
Lease liability: unwinding of the present value discount	4	45	-
Provision for disability payments: unwinding of the present value discount	23	8	8
<b>Total finance costs</b>		<b>1,160</b>	<b>1,126</b>

### 33. Income taxes

Income tax expense comprises the following:

	2019	2018
Current tax expense	573	612
Deferred tax charge	104	384
<b>Income tax expense reported in profit or loss</b>	<b>677</b>	<b>996</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 33. Income taxes (continued)

Reconciliation between the expected and the actual taxation charge is provided below:

	2019	2018
<b>Profit before tax</b>	<b>1,328</b>	<b>2,220</b>
<b>Theoretical tax charge at statutory rate of 20 per cent</b>	<b>266</b>	<b>444</b>
Effects of different tax rates for certain subsidiaries (22, 25 and 27 per cent)	57	65
Undistributed profits of JVs and associates taxed at 10%	(5)	(15)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- (income)/loss which is exempt from taxation	(2)	(14)
- non-deductible expenses	121	157
Deferred tax asset not recognized	187	172
Recognition of previously unrecognized deferred tax asset	(12)	(2)
Unused investment incentives on which deferred income tax assets recognized	(35)	(19)
Potential income tax on retained profit of subsidiaries	65	22
Other	35	186
<b>Income tax expense reported in profit or loss</b>	<b>677</b>	<b>996</b>

Non-deductible expenses mainly comprise the social and employee-related expenses. Unrecognized deferred tax assets mainly relates to the current year tax losses of the Group's subsidiaries which are not expected to utilize these losses.

The Group has business entities and subsidiaries which are residents to industrial parks in Azerbaijan and are exempt from taxation. According to change in Tax Code of Azerbaijan Republic in 2019, expenses incurred by industrial park residents shall be treated as non-deductible during the exemption period.

At 31 December 2019, cumulative balance of unrecognized deferred tax asset is AZN 1,610 (31 December 2018: AZN 1,435).

At 31 December 2019, benefits arising from previously unrecognized deferred tax assets were used during the year to reduce current tax expenses by the amount of AZN 12 (2018: AZN 2).

At 31 December 2019, the Group recognized deferred income tax asset on the portion of unused investment incentive for which the realization of the related tax benefit through the future taxable profit has deemed probable with respect to its projections.

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	1 January 2019	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	31 December 2019
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Carry forward tax losses	51	(23)	9	37
Accruals	-	1	-	1
Trade and other payables	12	15	-	27
Trade and other receivables	22	11	-	33
Inventory	4	(4)	-	-
Property, plant and equipment	443	65	(2)	506
Provisions for liabilities and charges	68	28	-	96
Unused investment incentives	75	(17)	(8)	50
Net defined benefit liability	7	(6)	-	1
Other	18	(5)	(2)	11
<b>Deferred tax assets</b>	<b>700</b>	<b>65</b>	<b>(3)</b>	<b>762</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 33. Income taxes (continued)

	1 January 2019	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	Acquisition through business combination	31 December 2019
<b>Tax effect of deductible/(taxable) temporary differences</b>					
Accruals	17	-	-	14	31
Investments in associates and joint ventures	(102)	(2)	-	-	(104)
Intangible assets	(42)	7	1	(91)	(125)
Trade and other payables	6	(1)	-	21	26
Trade and other receivables	(79)	(27)	-	-	(106)
Inventory	(38)	(12)	-	-	(50)
Property, plant and equipment	(1,084)	(142)	12	(2)	(1,216)
Provisions for liabilities and charges	136	60	(3)	-	193
Unused investment incentives	-	15	(2)	-	13
Other	(226)	(67)	1	3	(289)
<b>Deferred tax liabilities</b>	<b>(1,412)</b>	<b>(169)</b>	<b>9</b>	<b>(55)</b>	<b>(1,627)</b>

	1 January 2018	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	31 December 2018
<b>Tax effect of deductible/(taxable) temporary differences</b>				
Carry forward tax losses	98	(39)	(8)	51
Investments in associates and joint ventures	(1)	-	-	(1)
Trade and other payables	27	(15)	-	12
Trade and other receivables	33	(11)	-	22
Inventory	9	(4)	(1)	4
Property, plant and equipment	520	(66)	(11)	443
Provisions for liabilities and charges	75	(8)	1	68
Unused investment incentives	113	(33)	(5)	75
Net defined benefit liability	9	-	(2)	7
Other	22	(3)	-	19
<b>Deferred tax assets</b>	<b>905</b>	<b>(179)</b>	<b>(26)</b>	<b>700</b>

	1 January 2018	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	Acquisition through business combination	Effect of transition to IFRS 15	31 December 2018
<b>Tax effect of deductible/(taxable) temporary differences</b>						
Accruals	(4)	21	-	-	-	17
Investments in associates and joint ventures	(101)	3	(4)	-	-	(102)
Intangible assets	(41)	2	-	(3)	-	(42)
Trade and other payables	13	(7)	-	-	-	6
Trade and other receivables	(53)	(47)	1	-	20	(79)
Inventory	(22)	(16)	-	-	-	(38)
Property, plant and equipment	(903)	(166)	10	(25)	-	(1,084)
Provisions for liabilities and charges	133	-	3	-	-	136
Other	(231)	5	-	-	-	(226)
<b>Deferred tax liabilities</b>	<b>(1,209)</b>	<b>(205)</b>	<b>10</b>	<b>(28)</b>	<b>20</b>	<b>(1,412)</b>

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

### 33. Income taxes (continued)

The Group does not file a consolidated tax return. 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.

In accordance with Azerbaijani tax legislation, tax losses arising in one period can be carried forward for five years.

The Group is a participant to ACG PSA through its subsidiary AzACG. During 2019, AzACG accrued and paid its income tax at the rate of 25 per cent.

The governments of the Azerbaijan Republic, Turkey and Georgia together with the Group's subsidiary AzBTC and other BTC Project participants entered into Host Government Agreements ("HGAs"). The HGAs set out the legal and fiscal regime for the BTC Project and the mutual rights and obligations of the parties, including grants of rights and guarantees from the respective Countries to the investors in respect of matters necessary to ensure the success of the BTC Project. In accordance with the provisions of the HGAs, the BTC Project participants are individually liable for income taxes in Georgia and the Azerbaijan Republic and are responsible for filing returns for each taxable period. Accordingly, the Company is liable for Azerbaijani income taxes arising from participation in the BTC Project. In accordance with the provisions of the HGA, Azerbaijani income tax rate is twenty-seven per cent (27 per cent) which was effective at 31 December 2019 and 2018.

In addition, the Group is a participant to Shah Deniz PSA through its subsidiary AzSD. According to the provisions of Shah Deniz PSA, AzSD is liable for corporate income tax payments. However, in accordance with PSA, the Government makes profit tax payments on behalf of contractor parties from the proceeds from sales of profit petroleum attributable to the Government. Therefore, no corporate income tax related to Shah Deniz project was recognized for 2019 and 2018. At 31 December 2019 and 2018, deferred tax balance of AzSD was nil. AzSD is also exempt from certain ordinary operational taxes in the Azerbaijan Republic.

The Group operates in the tax environment of Turkey through its subsidiary, STEAS. Income tax rate in Turkey is 22 per cent as of 31 December 2019 (20 per cent as of 31 December 2018). According to new amendments on tax legislation of Turkey, 22 per cent corporate tax rate is applied to the profits of the companies related to 2019 and will be applied to 2020 tax period. Corporate income taxes are payable quarterly. Besides, the Group obtained investment incentives certificates from Ministry of Economy of Turkey. Based on these certificates, the Group became capable of deducting 22.2 – 50 per cent of expenditures that are in the scope of the investment incentives incurred during the investment period from tax base.

In accordance with the tax legislation of Turkey dividends paid to overseas corporations located outside Turkey, which have a place of business in Turkey are not subject to withholding tax that is 15 per cent. Therefore, the Group does not pay 15 per cent withholding tax.

The Group operates in tax environment of Switzerland through its subsidiary, SOCAR Energy Holdings AG. According to new amendments on tax legislation of Switzerland, 20.2 per cent (2018: 20 per cent) corporate tax rate is applied to profits of the companies related to 2019 and future tax periods.

The Group's subsidiaries – SOCAR Overseas LLC, GacruX Middle East Investments Holding LTD, Azerbaijan (SCP) LTD, Baku Shipyard LLC, Sermaye Investment Limited, SOCAR Polymer LLC and Carbamide Plant are exempt from taxation.

As at 31 December 2019, the Group had not recognized deferred tax liability in the amount of AZN 56 (31 December 2018: AZN 56) in respect of taxable temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 34. Advances received for sale of interest in PSA

In July 2014, the Company signed a Deferred Sales Purchase Agreement ("DSPA") to sell SOCAR's 10 per cent interest in Shah Deniz PSA and 10 per cent interest in SCPC (together referred as "Interest"). According to the terms of this agreement SGC shall pay advance for these acquisitions to SOCAR while control will pass to SGC in 2023 upon meeting of conditions preceding sale. In addition, DSPA specifies certain progress payments related to acquisition consideration payable annually till the end of 2020. As of 31 December 2019 and 2018, total consideration received for the interest in Shah Deniz PSA and SCPC amounted to AZN 4,313 (USD 2,537 million).

#### 35. Put option liabilities

On 12 August 2015, 891 million newly issued shares, representing 13 per cent of capital of STEAS, a subsidiary of the Group, were purchased by GSI in exchange for AZN 1,364 (USD 1,300 million).

At the same time, the Group entered into a put option agreement with GSI, whereby the Group has committed to purchase back the shares held by GSI, at a specified price, in case if the planned initial public offering of STEAS does not occur, or to settle the put option in case if certain conditions provided by the put option agreement are not met. Put option provided by the Group to GSI will be valid for 6 years following the signing of the put option agreement and represents non-current financial liability. As at 31 December 2019, carrying value of put option liability over 13 per cent STEAS shares equals to AZN 2,209 (31 December 2018: AZN 2,205).

The Group also has put option liability in the amount of AZN 509 (USD 300 million) (31 December 2018: AZN 508 (USD 300 million)) related to the put option agreement signed between STEAS and GSI in 2014 regarding 30 per cent shares of Petlim Limancılık Ticaret A.Ş.

#### 36. Significant non-cash investing and financing activities

Investing and financing transactions that do not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

	Note	2019	2018
<b>Non-cash investing and financing activities</b>			
Non-cash capital expenditures		224	175
Additions to assets purchased on lease		40	-
Increase in loan receivable from TANAP due to cash calls made by SGC on behalf of Group		25	31
Additions to investment in TANAP due to cash calls made by SGC on behalf of Group		26	30
Capital expenditures under carried interest arrangement		6	6
Early Termination of lease contracts		(49)	-
Conversion of borrowings due to Ministry of Finance to the charter capital of the Group	37	-	680
Offset of borrowings due to Ministry of Finance with tax overpayments of the Group	37	-	220
<b>Non-cash investing and financing activities</b>		<b>272</b>	<b>1,142</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 37. Changes in liabilities arising from financing activities

	1 January 2019	Cash flows	Finance cost	Foreign exchange movement	Acquisition of new business	Other	31 December 2019
Short-term interest-bearing borrowings	4,013	(315)	228	(91)	18	320	4,173
Non-current interest-bearing borrowings	9,659	1,472	579	(25)	4	(320)	11,369
Put option liabilities	2,784	(387)	335	5	-	-	2,737
Deferred consideration payable	686	-	38	3	-	-	727
Lease liabilities	685	(78)	45	(24)	-	3	631
Financing of Group by SGC for cash calls of TANAP	55	-	-	(3)	-	51	103
Dividend payable to NCI	21	-	-	-	-	11	32
<b>Total liabilities from financing activities</b>	<b>17,903</b>	<b>692</b>	<b>1,225</b>	<b>(135)</b>	<b>22</b>	<b>65</b>	<b>19,772</b>

The "Other" column of short-term and non-current interest-bearing borrowings represented by classification of current portion of AZN 320 of non-current borrowings as short-term in 2019. The "Other" column of dividend payable includes dividend declared amount to non-controlling shareholders during 2019 which was not paid as of 31 December 2019. The "Other" column of financing of Group by SGC for cash calls of TANAP represents liabilities which will result in future cash outflows recognized by the Group for the payments made on behalf of Group by SGC to respond cash call requests of TANAP.

Changes in liabilities arising from financing activities as at 31 December 2018 were as follows:

	1 January 2018	Cash flows	Finance cost	Foreign exchange movement	Acquisition of new business	Other	31 December 2018
Short-term interest-bearing borrowings	5,998	(2,131)	232	(138)	-	52	4,013
Non-current interest-bearing borrowings	9,513	363	600	103	32	(952)	9,659
Put option liabilities	2,746	(257)	301	(6)	-	-	2,784
Financing of Group by SGC for cash calls of TANAP	-	-	-	(6)	-	61	55
Deferred consideration payable	147	(161)	26	(1)	-	675	686
Dividend payable to NCI	22	(122)	-	-	-	121	21
<b>Total liabilities from financing activities</b>	<b>18,426</b>	<b>(2,308)</b>	<b>1,159</b>	<b>(48)</b>	<b>32</b>	<b>(43)</b>	<b>17,218</b>

The "Other" column of short-term interest-bearing borrowings included effect of conversion of borrowings due to Ministry of Finance to the charter capital of the Group of AZN 157 and offset of borrowings due to Ministry of Finance with tax overpayments of the Group in the amount of AZN 70. The "Other" column of non-current interest-bearing borrowings included effect of conversion of borrowings due to Ministry of Finance to the charter capital of the Group of AZN 523 and offset of borrowings due to Ministry of Finance with tax overpayments of the Group in the amount of AZN 150. In addition, the "Other" column of short-term and non-current interest-bearing borrowings represented by classification of current portion of AZN 279 of non-current borrowings as short-term in 2018. The "Other" column of financing of Group by SGC for cash calls of TANAP represents liabilities which will result in future cash outflows recognized by the Group for the payments made on behalf of Group by SGC to respond cash call requests of TANAP. The "Other" column of deferred consideration payable represents liabilities recognised for the purchase of 7% interest in and loan from TANAP in 2018. The "Other" column of dividend payable includes dividend declared amount to non-controlling shareholders during 2018.

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

### **38. Contingences, commitments and operating risks**

#### **Operating environment**

##### *Azerbaijan*

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

The Azerbaijan economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani Manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth. In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On 6 December 2016 President of the Azerbaijan Republic approved "Strategic road maps for the national economy and main economic sectors of Azerbaijan". The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

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

The Group's management is monitoring changes in macroeconomic environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

International credit rating agencies regularly evaluate credit rating of the Azerbaijan Republic and the Group. Fitch evaluated rating of the Group and rating of the Azerbaijan Republic as "BB+", however, S&P evaluated the Azerbaijan Republic with "BB+" and the Group with "BB-". Moody's Investors Service set "Ba2" credit rating for Azerbaijan and for the Group.

##### *Turkey*

The Group's activities in Turkey were affected by the instability of Turkish economy during 2019. Such instability was followed by significant inflation and devaluation of local currency against major foreign currencies, such as, USD and EUR by 13 per cent (2018: 40 per cent) and 10 per cent (2018: 33 per cent), respectively.

While management believes it is taking appropriate measures to support the sustainability of Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

#### **Environmental matters**

The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision currently made by the Group (Note 23).

The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the Group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the Group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in the consolidated financial statements in accordance with the Group's accounting policies. While the amounts of future costs could be significant and could be material to the Group's results of operations in the period in which they are recognized, it is not practical to estimate the amounts involved. The Group does not expect these costs to have a material effect on the Group's financial position or liquidity.

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

### **38. Contingences, commitments and operating risks (continued)**

#### **Environmental matters (continued)**

The Group also has obligations to decommission oil and natural gas production facilities and related pipelines. Provision is made for the estimated costs of these activities, however there is uncertainty regarding both the amount and timing of these costs, given the long-term nature of these obligations.

The Group believes that the impact of any reasonably foreseeable changes to these provisions on the Group's results of operations, financial position or liquidity will not be material.

#### **Tax legislation**

Azerbaijan tax, currency and customs legislation are subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances such reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained, and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements. Accordingly, at 31 December 2019 and 2018 no provision for potential tax liabilities had been recorded.

#### **Azneft PU tax case**

During 2019, tax authorities conducted on site tax audit in Azneft PU covering the period from 1 April 2016 to 1 November 2018. As part of inspection, tax authorities raised a claim declaring the understatement of the profit tax, export duties and incorrect offset of VAT in total amount of AZN 111. The Management has own position in regard with these claims and believes that the Group has declared taxes properly during the period under inspection. Currently, the negotiation between the Group management and the tax office is in process and Management of the Group believes that their arguments are strong and it is probable that tax authorities will accept their position.

#### **Black Sea Terminal tax case**

In 2018, Black Sea Terminal – subsidiary of the Group was inspected by the Revenue Service ("RS") which covered the period starting from 1 January 2015 up to 1 January 2018 for corporate income tax, personnel income tax and withholding tax. As a result of inspection, RS accrued additional WHT and respective fines and sanctions in total amount of AZN 103 (GEL 174 million). The Group did not agree with results of the inspection and appealed to Ministry of Finance for further investigation. The hearing was held by Council of Tax Appeals in July 2019, however no final decision was made as of 31 December 2019. Management believes the base for noted fine will be deemed as invalid and thus, no financial exposure is deemed probable.

#### **Ongoing cases against Petkim**

On 25 August 2017, Petkim was notified by Turkish Tax Authority about the additional VAT charge and fine which was calculated based on Special Consumption Tax ("SCT") regime as a result of the investigation related to pyrolysis gasoline ("pygas") consumption during 2014. Three ongoing legal cases with respect to the application of SCT regime for pygas, have been recently resulted in favour of the Petkim. A compromise meeting was attended for the tax and penalties communicated and no compromise was achieved. The case was filed on 22 January 2020 regarding the issue. Accordingly, management believes the base for noted fine will be deemed as invalid, and so no financial exposure is deemed probable.

#### **Legal proceedings**

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 38. Contingences, commitments and operating risks (continued)

#### Compliance with financial covenants

At 31 December 2019, the Group had loans payable in total amount of AZN 15,542 which were received for financing its investing and operating activities. The Group is subject to certain financial covenants related to these borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that, as of 31 December 2019 and 2018 the Group was in compliance with all applicable financial covenants.

#### Financial guarantees, collaterals, pledges and mortgages

The Group pledged its future cash inflows in respect of proceeds to be received from sales of natural gas and crude oil in the amount of AZN 418 for loan received from related party.

#### SOCAR Head Office

According to Equity Subscription Support and Retention Agreement ("ESSRA") which had been signed as part of STAR Project Finance deal, the Group concluded letter of credit ("LC") facility agreements in total amount of AZN 865 (USD 509 million) with certain banks (Lenders).

#### STEAS

The following table demonstrates guarantees received and given by the Group at 31 December 2019:

	2019	2018
<b>Guarantees received</b>		
Bank guarantees within the context of direct order collection system (DOCS)	321	304
Receivable Insurance	291	258
Letters of guarantee received from customers	296	182
Letters of credit received	38	130
Letters of guarantee received from suppliers	130	127
Other	26	43
<b>Total guarantees received</b>	<b>1,102</b>	<b>1,044</b>
<b>Guarantees given</b>		
Letters of guarantee given	177	175
<b>Total guarantees given</b>	<b>177</b>	<b>175</b>
<b>Collaterals, pledges and mortgages (CPMs)</b>		
CPMs given by Petkim on Petlim loan*	322	324
CPMs given for Petkim	718	665
<b>Total CPMs given by Petkim</b>	<b>1,040</b>	<b>989</b>

\* During 2015, Petlim Limançılık Ticaret A.Ş., where Group subsidiary Petkim owns 70 per cent shares, has signed a project finance credit agreement with a financial institution in the amount of AZN 360 (USD 212 million) which has 13 years of maturity with no repayment during first 3 years period, for the external funding of the container port project. At 31 December 2019, Petlim has remaining loan balance amounting to AZN 322 (TRY 1,127 million). Petkim has pledged its shares in Petlim amounting to AZN 30 (TRY 105 million) and a mortgage amounting to AZN 595 (USD 350 million) as a guarantee for the loan repayment. The project has financial covenants that are valid during the operating period.

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

### **38. Contingences, commitments and operating risks (continued)**

#### **Capital commitments**

##### *Participating interest in ACG PSA*

Azerbaijan International Operating Company, the Operator of the ACG PSA has entered into a number of capital commitments as at 31 December 2019. The Group estimated its 25 per cent (31 December 2018: 25 per cent) share of these commitments to be AZN 2,373 (USD 1,396 million) (31 December 2018: AZN 634 (USD 373 million)).

##### *Commitments of Baku Shipyard LLC*

As at 31 December 2019, the Group had capital commitments to third parties in the amount of AZN 43 (31 December 2018: AZN 50) in respect of construction contracts.

##### *Commitments of SOCAR Switzerland*

The Group has number capital commitments for the next years. The Group estimated its capital commitments to be AZN 63 (CHF 36 million) (31 December 2018: AZN 72 (CHF 42 million)).

##### *Participating interest in Shah Deniz PSA*

BP Exploration Shah Deniz Limited, the Operator of the Shah Deniz PSA has entered into a number of capital commitments as at 31 December 2019. The Group estimated its 13.27 per cent share of these capital commitments through its subsidiary and associate to be AZN 673 (USD 396 million) (31 December 2018: AZN 877 (USD 516 million)).

##### *Commitment under the funding agreement with BOTAS (the "Funding Agreement")*

On 26 May 2014 SOCAR and BOTAS signed Funding Agreement for financing BOTAS's 5 per cent shares in TANAP A.Ş., upon acquisition of shares in TANAP A.Ş. by BOTAS. Following the sale of TANAP to SGC, on 13 March 2015, the Group signed novation agreement with SGC and BOTAS, where all rights and obligations under the Funding Agreement were transferred from SOCAR to the SGC. According to agreement with BOTAS, the SGC has commitment for providing interest free loan to BOTAS for financing its 5 per cent share in TANAP A.Ş.'s future cash call requirements throughout the Carry Period (as defined in the Funding Agreement). Management expects no further cash outflows in connection with the Funding Agreement.

##### *Commitment related to SCP Expansion*

Shah Deniz PSA Contractor Parties made the final investment decision on SCP Expansion project on 17 December 2013. SCP Expansion project objective is to expand the existing SCP pipeline system capacity. Due to SCP expansion additional facilities will be constructed in Georgia for the purposes of interconnection with TANAP. The Group has the commitment to fund the SCP Expansion project throughout the construction and initial operational phase.

First commercial deliveries of gas under the SCP Expansion project took place on 30 June 2018 and construction of remaining SCP Expansion project elements was completed on 31 March 2019. The SCP Expansion remaining construction budget is estimated in the amount of AZN 44 (USD 26 million) (2018: AZN 258 (USD 152 million)). The Group's share through its subsidiary and associate at 31 December 2019 was AZN 5.8 (USD 3.4 million) (2018: AZN 34 (USD 20 million)).

##### *Construction of TANAP*

The Group has capital commitment to fund TANAP project. The Group's share in the remaining budget for construction of TANAP system through its associate at 31 December 2019 was AZN 129 (USD 76 million) (31 December 2018: AZN 408 (USD 240 million)).

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

### **38. Contingences, commitments and operating risks (continued)**

#### **Capital commitments (continued)**

##### *Construction of TAP*

At the financial statement date, the Group has capital commitment to fund the construction of TAP system. In late 2018 TAP AG reached financial close under the project financing, provided by a large group of financial institutions. The Group acts as one of the guarantors of the loan facilities for the 9.8% shares that it holds in TAP AG and continues to provide required equity financing to TAP AG pro-rata to its equity share. The Group's share in the remaining budget for construction of TAP system through its associate at 31 December 2019 was AZN 133 (USD 78 million) (31 December 2018: AZN 218 (USD 128 million)).

#### **Gas purchase commitments**

##### *Gas purchase commitment*

Based on the Gas Sales and Purchase Agreement signed on 27 February 2003 between Azerbaijan Gas Supply Company ("AGSC") and the Ministry of Energy of the Azerbaijan Republic (currently purchase rights under this agreement are executed by the Group), the Group has obligation to purchase seller's minimum annual quantity as indicated in the agreement for the period beginning from signing of the contract up to the termination date of Shah Deniz PSA.

##### *SOCAR – AGSC Gas sales agreement*

The Group is obliged under the agreement signed with AGSC to purchase minimum annual quantity of gas till June 2020 (with earlier termination or possible extension of the agreement in accordance with provisions of the agreement) at a price which is stipulated in the contract.

#### **Commitments related to participating interest in AGSC**

The Group holds 28 per cent direct interest in AGSC and indirect 2.62 per cent through its associate. In accordance with the agreements of AGSC the Group has 13.27 per cent share of the following commitments relating to AGSC's activity.

##### *BOTAS SPA 1*

AGSC is obliged under the gas contract signed with BOTAS to make available a maximum of approximately 6.6 billion Contract Cubic Meters ("BCcm") of gas annually until the expiry of the contract at a price calculated based on a formula established by the gas contract.

##### *BOTAS SPA 2*

On 25 October 2011 the Group and BOTAS executed a gas Sale and Purchase Agreement ("BOTAS SPA 2") with respect to the sale by the Group to BOTAS of certain volumes of Shah Deniz Stage 2 Gas (2 BCcm first year, 4 BCcm second year, 6 BCcm plateau period). In December 2012 the Group transferred and assigned the rights and obligations under the Stage 2 SPA to AGSC. The commencement date under BOTAS SPA 2 was 30 June 2018.

##### *BOTAS contract for BTC fuel gas (BIL GSA)*

AGSC is obliged under the agreement with BOTAS to make available 0.15 BCcm of gas annually until the expiry of the contract at a price, which is calculated based on a formula established in the contract.

##### *Georgian Supplemental Gas SPA with GOGC*

AGSC is obliged under the agreement signed with Georgian Oil and Gas Corporation ("GOGC") and the government of Georgia to make available 0.5 bcm of gas annually in 2020 and onwards, at a price which is calculated based on a formula established in the contract.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 38. Contingences, commitments and operating risks (continued)

#### Commitments related to participating interest in AGSC (continued)

##### *Sale and purchase agreement with OptionCo*

AGSC is obliged under the agreement signed with OptionCo to make available during each contract year a maximum of five percent of the volumes transported in the previous calendar years by AGSC via the SCP pipeline through territory of Georgia, at a price, which is calculated based on a formula established in the contract.

##### *Shah Deniz Stage 2 EU Long term Gas Sales Agreements ("GSA")*

In September 2013, several EU GSAs were signed by the Group with EU Buyers (currently: DEPA, Bulgargaz Shell, Uniper, Axpo, ENGIE, Edison, Enel, Hera) and in December 2013 the GSAs were assigned to AGSC until Shah Deniz PSA expiry with re-assignment to the Group as Shah Deniz Production declines. The commencement date will be firmed up through funneling mechanism as defined in the GSAs.

##### *Transportation agreement with SCPC*

AGSC is party to SCPC Gas Transportation Agreement ("GTA"), dated 27 February 2003 which was subsequently amended and re-stated ("SCP GTA") with effect from 17 December 2013 in order to provide additional transportation services in respect of Shah Deniz Stage 2 volumes. AGSC is obliged to pay certain tariffs, as calculated in accordance with the agreement, to SCPC starting from the commencement date, which is 1 October 2006. AGSC is obliged to provide SCPC, free of charge, the natural gas necessary to fill and pressurize the pipeline to its designed operating pressure and used as fuel gas. The SCP GTA provides for Minimum Monthly Payments ("MMP"), as calculated in accordance with the subject agreement, payable by AGSC to SCPC, regardless of whether natural gas is shipped or not, in respect of each contract year until the termination or expiry of the GTA.

##### *Framework agreement*

A fully-termed Framework Agreement related to the novation of long-term GSAs and transfer of GTA capacity from AGSC to SOCAR after 2036 was executed on 19 October 2015 and further amended and restated on 28 September 2018.

##### *Trans Anatolian Pipeline Gas Transportation Agreement (TANAP GTA)*

AGSC is a party to TANAP GTA with annual reserved capacity as defined in the contract. The planned commencement date is a date falling in the second half of 2020.

##### *Trans Adriatic Pipeline Gas Transportation Agreement (TAP GTA)*

AGSC and SOCAR is a party to TAP GTA with annual capacity as defined in the contract. The planned commencement date is a date falling in the second half of 2020.

##### *BOTAS Gas Transportation Agreement (BOTAS GTA)*

TANAP is a party to BOTAS GTA with annual reserved capacity during the build-up period, as defined in the contract, of 1.9 BCcm (12-month period commencing on start date), 3.8 BCcm (next 12-month period) and plateau of 5.7 BCcm 24 months after the start date. The start date was 30 June 2018.

##### *Societa Nazionale Metanodotti GTA (SNAM GTA)*

AGSC is a party to SNAM GTA with annual reserved capacity as defined in the contract. The planned commencement date will be set through a funnelling mechanism.



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

### **38. Contingences, commitments and operating risks (continued)**

#### *Sale and purchase agreement with Baku-Tbilisi-Ceyhan Pipeline Company ("BTC Co")*

AGSC is obliged under an agreement signed with BTC Co to make available 0.16 bcm in 2020 and during the following years until the termination of the contract subject to the right of BTC Co to reduce annual off-take, at a price which is calculated based on the formula established in the contract.

#### **Deferred Sale and Purchase Agreement with SGC**

According to Deferred Sale and Purchase Agreement ("DSPA") signed with SGC Upstream LLC and SGC Midstream LLC the Group agrees to sell its whole interest in Shah Deniz PSA, AGSC and SCPC in March 2023 upon meeting of the following conditions preceding sale:

- ▶ The full and unconditional repayment of the notes and fulfilment of other obligations under the Eurobonds agreements by SOCAR; and
- ▶ Confirmation of the payment of full consideration amount in accordance with agreement terms.

#### **Other commitments**

##### *Commitment of Azerigas PU*

Based on Presidential Decree number 118 dated 27 February 2014, directed to social-economic development of Baku area and regions of the Azerbaijan Republic, Azerigas PU has certain commitments with respect to gasification in the mentioned areas. After completion of the first gasification program which covered the period from 2014 to 2018, the company continues the gasification process within implementation of new "State Program on Socio-Economic Development of Regions of the Republic of Azerbaijan for 2019-2023 years". As at 31 December 2019 gasification in the country was completed by 96.01 per cent (31 December 2018: 95.66 per cent). Management believes that expenditures related to remaining gasification in the country will continue to be financed by the Government through contributions into capital.

##### *Oil shipment commitment*

On 1 August 2002 the Group and other participants under the ACG PSA (the "Shipper Group") have entered into the ACG Field Production Transportation Agreement ("ACG TA") with the BTC Co which was amended on 3 February 2004. Under this Agreement, the Shipper Group have committed to ship through the BTC Pipeline all of their crude oil entitlement from the ACG field, other than any production which each participant may ship through the Western Export Route. The Group has agreed not to transport its crude oil by rail unless BTC Co is operating at its full capacity. In accordance with ACG TA the Group has agreed not to use other transportation options, if capacity of the BTC Co is sufficient. The BTC Pipeline was put into operation in May 2006. The BTC Pipeline, with a throughput capacity of more than 1,200,000 barrels per day, is used as the Shipper Group's main export route. In accordance with the Transportation Agreement, the Shipper Group, the Group representative, the lenders and security trustee to BTC Co, and the lenders and security trustee to certain participants of the ACG Shipper Group have agreed that payment of BTC Co tariff has a first priority claim on oil sale proceeds.

#### **SOCAR Gas Transportation Agreement (SOCAR GTA)**

Based on this GTA, from and including the start date SOCAR shall pay to TAP AG the amount of actual monthly charge in relation of each booking of reserved capacity at each entry point and exit point at a price which is calculated based on the formula established in the contract.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

**39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life**

**Business combination and acquisition of non-controlling interest**

On 17 June 2019, the Group acquired controlling interest in Bursagaz, Kayserigaz, EWE Enerji, Enervis, Milenicom and Kay Solar Projects. The Group considered this acquisition as an opportunity to expand to natural gas distribution, energy trade, solar power and telecommunication businesses in Turkey. The fair values of the acquirees' assets and liabilities as at the date of acquisition are presented below:

<b>Bursagaz</b>	<b>Note</b>	<b>Fair value recognized on acquisition</b>
<b>Assets</b>		
Cash and cash equivalents		64
Trade and other receivables		9
Other current assets		7
Property, plant and equipment		117
Intangible assets other than goodwill		228
Right-of-use asset		1
<b>Total assets at fair value</b>		<b>426</b>
<b>Liabilities</b>		
Trade and other payables	19	147
Other current liabilities		1
Deferred tax liabilities		28
Non-current lease liability		1
Other non-current liabilities		48
<b>Total liabilities at fair value</b>		<b>225</b>
<b>Total identifiable net assets at fair value</b>		<b>201</b>
Non-controlling interest		(44)
Gain recognized on bargain purchase	30	(5)
<b>Purchase consideration transferred</b>		<b>(152)</b>
<b>Analysis of cash flow on acquisition</b>		
Net cash acquired with subsidiary		64
Cash paid		(152)
<b>Net cash flow on acquisition</b>		<b>(88)</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

**39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life (continued)**

**Business combination and acquisition of non-controlling interest (continued)**

From the date of acquisition, Bursagaz has contributed AZN 146 of revenue from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, the Group's revenue from continuing operations would have been AZN 83,943 and the profit before tax from continuing operations for the period would have been AZN 1,344.

<b>Kayserigaz</b>	<b>Note</b>	<b>Fair value recognized on acquisition</b>
<b>Assets</b>		
Cash and cash equivalents		18
Trade and other receivables		15
Other current assets		6
Property, plant and equipment		94
Intangible assets other than goodwill		217
Right-of-use asset		1
<b>Total assets at fair value</b>		<b>351</b>
<b>Liabilities</b>		
Trade and other payables	19	90
Deferred tax liabilities		32
Non-current lease liability		1
Other non-current liabilities		38
<b>Total liabilities at fair value</b>		<b>161</b>
<b>Total identifiable net assets at fair value</b>		<b>190</b>
Non-controlling interest		(36)
Gain recognized on bargain purchase	30	(9)
<b>Purchase consideration transferred</b>		<b>(145)</b>
<b>Analysis of cash flow on acquisition</b>		
Net cash acquired with subsidiary		18
Cash paid		(145)
<b>Net cash flow on acquisition</b>		<b>(127)</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

**39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life (continued)**

**Business combination and acquisition of non-controlling interest (continued)**

From the date of acquisition, Kaysenigaz has contributed AZN 91 of revenue from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, the Group's revenue from continuing operations would have been AZN 83,861 and the profit before tax from continuing operations for the period would have been AZN 1,336.

<b>EWE Enerji</b>	<b>Note</b>	<b>Fair value recognized on acquisition</b>
<b>Assets</b>		
Cash and cash equivalents		1
Trade and other receivables		29
Other current assets		3
Deferred tax asset		5
<b>Total assets at fair value</b>		<b>38</b>
<b>Liabilities</b>		
Trade and other payables	19	51
Other non-current liabilities		1
<b>Total liabilities at fair value</b>		<b>52</b>
<b>Total identifiable net liabilities at fair value</b>		<b>(14)</b>
Non-controlling interest		-
Goodwill arising on acquisition		14
<b>Purchase consideration transferred</b>		<b>-</b>
<b>Analysis of cash flow on acquisition</b>		
Net cash acquired with subsidiary		1
Cash paid		-
<b>Net cash flow on acquisition</b>		<b>1</b>

From the date of acquisition, EWE Enerji has contributed AZN 364 of revenue from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, the Group's revenue from continuing operations would have been AZN 83,875 and the profit before tax from continuing operations for the period would have been AZN 1,322.

<b>Enervis</b>	<b>Note</b>	<b>Fair value recognized on acquisition</b>
<b>Assets</b>		
Trade and other receivables		2
<b>Total assets at fair value</b>		<b>2</b>
<b>Liabilities</b>		
Other non-current liabilities		1
<b>Total liabilities at fair value</b>		<b>1</b>
<b>Total identifiable net assets at fair value</b>		<b>1</b>
Non-controlling interest		-
Gain recognized on bargain	30	(1)
<b>Purchase consideration transferred</b>		<b>-</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

**39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life (continued)**

**Business combination and acquisition of non-controlling interest (continued)**

<b>Milenicom</b>	<b>Note</b>	<b>Fair value recognized on acquisition</b>
<b>Assets</b>		
Cash and cash equivalents		2
Trade and other receivables		19
Other current assets		1
Property, plant and equipment		2
Intangible assets other than goodwill		8
<b>Total assets at fair value</b>		<b>32</b>
<b>Liabilities</b>		
Trade and other payables	19	24
Non-current lease liability		1
Other non-current liabilities		3
<b>Total liabilities at fair value</b>		<b>28</b>
<b>Total identifiable net assets at fair value</b>		<b>4</b>
Non-controlling interest		-
Gain recognized on bargain	30	(4)
<b>Purchase consideration transferred</b>		<b>-</b>
<b>Analysis of cash flow on acquisition</b>		
Net cash acquired with subsidiary		2
Cash paid		-
<b>Net cash flow on acquisition</b>		<b>2</b>

From the date of acquisition, Milenicom has contributed AZN 28 of revenue from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, the Group's revenue from continuing operations would have been AZN 83,776 and the profit before tax from continuing operations for the period would have been AZN 1,326.

<b>Kay Solar Projects</b>	<b>Note</b>	<b>Fair value recognized on acquisition</b>
<b>Assets</b>		
Trade and other receivables		1
Property, plant and equipment		3
Intangible assets other than goodwill		1
<b>Total assets at fair value</b>		<b>5</b>
<b>Liabilities</b>		
Trade and other payables	19	1
Other non-current liabilities		4
<b>Total liabilities at fair value</b>		<b>5</b>
<b>Total identifiable net assets at fair value</b>		<b>-</b>
Non-controlling interest		-
Goodwill arising on acquisition		3
<b>Purchase consideration transferred</b>		<b>(3)</b>
<b>Analysis of cash flow on acquisition</b>		
Net cash acquired with subsidiary		-
Cash paid		(3)
<b>Net cash flow on acquisition</b>		<b>(3)</b>

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life (continued)

#### Business combination and acquisition of non-controlling interest (continued)

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of EWE Turkey Holding A.Ş. and Kay Solar Projects with those of the Group. The goodwill is not deductible for income tax purposes.

#### Acquisitions in 2018

##### Acquisition of 100 per cent interest in APMT

According to "Operation Agreement" signed between the Group and APM Terminalleri Liman İşletmeciliği Anonim Şirketi ("APMT") in 2013, the latter was appointed as the operator of Petlim port. APMT was responsible for providing services in accordance with the terms and conditions set out in the operation agreement. The agreement provided APMT with the right to use the infrastructure and maintain, manage and repair the port. On 27 December 2018, APMT terminated Operation Agreement which triggered penalty payment to the Group by ultimate shareholder of APMT. The Group and former owner ("Owner") of APMT negotiated exit route and potential settlement options of penalty amount. As a result, parties agreed to determine penalty amount as fair value of APMT business and settle penalty by transferring APMT to the Group. Thus, the Group recognized penalty receivable of AZN 170 (Note 30) at transaction date.

This transaction was recognized as an acquisition of new business in accordance with IFRS 3. On December 2019, the valuation was completed and the fair values of identifiable assets and liabilities arising from the acquisition were identified as following:

	Note	Fair value recognized for transferred asset and liabilities, AZN
<b>Assets</b>		
Property, plant and equipment	15	98
Intangible assets	16	58
Cash		55
Trade and other receivables		23
<b>Total assets at fair value</b>		<b>234</b>
<b>Liabilities</b>		
Trade and other payables		47
Deferred tax liabilities	33	17
<b>Total liabilities at fair value</b>		<b>64</b>
<b>Total identifiable net assets at fair value</b>		<b>170</b>
<b>Purchase consideration transferred</b>		<b>(170)</b>

The transactions resulted in net cash inflow in the amount of AZN 55. The cash outflow as a result of acquisition was nil.

Prior to acquisition, the Group recognized deferred income balance of AZN 51 with APMT regarding the right-of-use of the port for the future years. At the date of acquisition, deferred income was released to profit or loss statement of the Group as a settlement of pre-existing relationship (Note 30).

##### Acquisition of 100 per cent shares in retail service chain network in Austria

On 28 February 2018 the Group acquired 100 per cent control over four business units which are network of gas and petrol stores located in Austria. The Group considered this acquisition as an opportunity to expand its petrol station network into an adjacent geography at an attractive rate of return.

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life (continued)

#### Acquisitions in 2018 (continued)

This transaction was recognized as acquisition of new business in accordance with IFRS 3. As a result of purchase price allocation fair value of net identifiable assets of acquired business units was determined as equal to the consideration of AZN 56 transferred for the acquisition.

The fair values of the assets and liabilities as at the date of acquisition are presented below:

	Notes	Fair value recognized on acquisition
<b>Assets</b>		
Property, plant and equipment	15	101
Intangible assets	16	11
Inventories		7
Trade and other receivables		15
Other current financial assets		3
<b>Total assets at fair value</b>		<b>137</b>
<b>Liabilities</b>		
Long-term borrowings		32
Deferred tax liabilities	33	11
Trade and other payables		29
Other current financial liabilities		9
<b>Total liabilities at fair value</b>		<b>81</b>
<b>Total identifiable net assets at fair value</b>		<b>56</b>
<b>Purchase consideration transferred</b>		<b>(56)</b>
<b>Analysis of cash flow on acquisition</b>		
Net cash acquired with subsidiary		-
Cash paid		(56)
<b>Net cash flow on acquisition</b>		<b>(56)</b>

From the date of acquisition, newly acquired business units have contributed AZN 303 of revenue and AZN 2 loss to the net profit before tax from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, the Group's revenue from continuing operations would have been AZN 111,255 and the profit before tax from continuing operations for the period would have been AZN 2,219.

#### Goodwill and intangible assets with indefinite useful lives

For impairment testing goodwill acquired through business combinations and intangible assets with indefinite useful lives were allocated to CGUs at 31 December 2019 and 2018 as following:

	SOCAR Trading		SOCAR Switzerland		Petkim		UBEP		Other	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Goodwill	106	106	122	115	56	63	-	-	33	17
Trade name	-	-	5	7	20	23	-	-	-	-
Licence	-	-	-	-	-	-	105	105	-	-

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life (continued)

#### Goodwill and intangible assets with indefinite useful lives (continued)

Movement in the carrying amount of goodwill was as follows:

	2019	2018
<b>Carrying amount at 1 January</b>	<b>301</b>	<b>327</b>
Acquisition of subsidiary	21	–
Translation difference	(5)	(26)
<b>Carrying amount at 31 December</b>	<b>317</b>	<b>301</b>

The carrying amounts of goodwill as of 31 December 2019 and 2018 include an accumulated goodwill impairment of AZN 3.

The carrying value of the goodwill at 31 December 2019 has been tested for impairment through comparison with its recoverable amount. Based on the value-in-use calculations of Petkim and its subsidiaries, recoverable amount was equal to AZN 5,426 as of 31 December 2019. Pre-tax cash flows projections used for this purpose are based on annual business plan approved by management covering 10-year period. Management believes that the underlying cash flows projections represent accurate and reliable forecast. Cash flow projections beyond 10-year period are extrapolated by terminal growth rates of 2.3 per cent and then discounted to their net present value, applying WACC, used as a discount rate of 11.4 per cent. As a result of the test performed, no impairment has been identified. Valuation exercise is highly sensitive to WACC and terminal growth rate.

If the estimated discount rate used in the calculation had been 0.3 per cent higher/lower than management's estimate, the value in use would have been AZN 216 lower / AZN 233 higher, respectively.

If the terminal growth rate used in the calculation had been 0.3 per cent higher/lower than management's estimate, the value in use would have been AZN 160 higher / AZN 148 lower, respectively.

As a result of the sensitivity analysis, no impairment charge was identified.

#### Testing of the carrying value of goodwill related to acquisition of SOCAR Energy Holdings AG

The carrying value of the goodwill at 31 December 2019 has been tested for impairment through comparison with its recoverable amount. Based on the value-in-use calculations of SOCAR Energy Holdings AG and its subsidiaries, recoverable amount was equal to AZN 967 as of 31 December 2019. Pre-tax cash flows projections used for this purpose are based on annual business plan approved by management covering 5-year period. Management believes that the underlying cash flows projections represent accurate and reliable forecast. Cash flow projections beyond 5-year period are extrapolated by terminal growth rates of 1.5 per cent and then discounted to their net present value, applying WACC, used as a discount rate of 6 per cent. As a result of the test performed, no impairment has been identified. Valuation exercise is highly sensitive to WACC and terminal growth rate.

If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the value in use would have been AZN 175 lower / AZN 274 higher, respectively.

If the terminal growth rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the value in use would have been AZN 47 higher / AZN 42 lower, respectively.

As a result of the sensitivity analysis, no impairment charge was identified.



(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

### 39. Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business, goodwill and intangible asset with indefinite useful life (continued)

#### Testing of the carrying value of goodwill related to acquisition of SOCAR Trading

The carrying value of the goodwill at 31 December 2019 has been tested for impairment through comparison with its recoverable amount. Based on the value-in-use calculations of SOCAR Trading and its subsidiaries, recoverable amount was equal to AZN 1,050 as of 31 December 2019. Pre-tax cash flows projections used for this purpose are based on annual business plan approved by management covering 5-year period. Management believes that the underlying cash flows projections represent accurate and reliable forecast. Cash flow projections beyond 5-year period are extrapolated by terminal growth rates of 1 per cent and then discounted to their net present value, applying WACC, used as a discount rate of 12 per cent. As a result of the test performed, no impairment has been identified. Valuation exercise is highly sensitive to WACC and terminal growth rate.

If the estimated discount rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the value in use would have been AZN 15 lower / AZN 16 higher, respectively.

If the terminal growth rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the value in use would have been AZN 5 higher / AZN 5 lower, respectively.

As a result of the sensitivity analysis, no impairment charge was identified.

#### Testing of the licence related to UBEP

The license of UBEP gives right to the Group to produce and sell natural gas and condensate of Umid field and exploit Babek field. Carrying value of license at 31 December 2019 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of UBEP as AZN 881 as of 31 December 2019. Cash flow projections used for this purpose are based on financial forecast covering PSA life which is 23 years. As a result of the test performed, no impairment was identified.

The valuation exercises are sensitive to the change in WACC, which was taken into account by the Group, as 12.67 per cent throughout the projection period.

If WACC used in the calculation had been 1 per cent higher/lower than management's estimate, the value in use would have been AZN 94 lower / AZN 107 higher, respectively. As a result of the sensitivity analysis, no impairment was identified.

### 40. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation	Country of operation	2019	2018
Petkim	Turkey	Turkey	49%	49%
BOS Shelf International FZCO	UAE	Azerbaijan	20%	20%
SOCAR Polymer LLC	Azerbaijan	Azerbaijan	43%	48%

Accumulated balances of material non-controlling interests:

Name	2019	2018
Petkim	912	928
BOS Shelf International FZCO	23	18
SOCAR Polymer LLC	131	161

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 40. Material partly-owned subsidiaries (continued)

Profit allocated to material non-controlling interests:

Name	2019	2018
Petkim	97	132
BOS Shelf International FZCO	17	11
SOCAR Polymer LLC	(38)	(21)

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations:

Summarised statement of profit or loss and other comprehensive income for 2019:

	Petkim	BOS Shelf International FZCO	SOCAR Polymer LLC
Revenue	3,495	171	52
Cost of sales	(3,043)	(104)	(36)
General and administrative expenses	(87)	(2)	(27)
Distribution expenses	(32)	-	(8)
Other operating income	111	31	-
Other operating expense	(104)	-	(14)
Interest revenue calculated using effective interest method	39	-	2
Finance costs	(133)	-	(19)
Foreign exchange loss	(22)	-	-
<b>Profit before tax</b>	<b>224</b>	<b>96</b>	<b>(50)</b>
Income tax expense	(28)	(10)	(36)
<b>Profit for the year from continuing operations</b>	<b>196</b>	<b>86</b>	<b>(86)</b>
Other comprehensive loss to be reclassified to profit or loss in subsequent periods	(229)	(6)	-
<b>Total comprehensive (loss)/income</b>	<b>(33)</b>	<b>80</b>	<b>(86)</b>
Attributable to non-controlling interests	(16)	16	(38)
Dividends declared to non-controlling interests	-	11	-

Summarised statement of profit or loss and other comprehensive income for 2018:

	Petkim	BOS Shelf International FZCO	SOCAR Polymer LLC
Revenue	3,358	110	-
Cost of sales	(2,815)	(58)	-
General and administrative expenses	(93)	(1)	(34)
Distribution expenses	(28)	-	-
Other operating income	169	10	-
Other operating expense	(189)	-	-
Interest revenue calculated using effective interest method	82	-	-
Finance costs	(132)	-	-
Foreign exchange gain	(23)	(4)	3
<b>Profit before tax</b>	<b>329</b>	<b>57</b>	<b>(31)</b>
Income tax expense	(60)	(4)	(15)
<b>Profit for the year from continuing operations</b>	<b>269</b>	<b>53</b>	<b>(46)</b>
Other comprehensive loss to be reclassified to profit or loss in subsequent periods	(742)	(26)	-
<b>Total comprehensive (loss)/income</b>	<b>(473)</b>	<b>27</b>	<b>(46)</b>
Attributable to non-controlling interests	(232)	5	(21)
Dividends declared to non-controlling interests	95	20	-

(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)

#### 40. Material partly-owned subsidiaries (continued)

Summarised statement of financial position as at 31 December 2019:

	Petkim	BOS Shelf International FZCO	SOCAR Polymer LLC
<b>Current assets</b>	<b>2,732</b>	<b>266</b>	<b>112</b>
<i>including:</i>			
Cash and cash equivalents	1,154	139	1
Trade and other receivables	446	65	55
Inventories	270	1	50
Other current assets	862	61	6
<b>Non-current assets</b>	<b>2,071</b>	<b>6</b>	<b>1,367</b>
<i>including:</i>			
Property, plant and equipment	1,715	4	1,350
Intangible assets	204	2	10
Other non-current assets	152	-	7
<b>Current liabilities</b>	<b>(1,467)</b>	<b>(159)</b>	<b>(308)</b>
<i>including:</i>			
Short-term borrowings and current portion of long-term borrowings	(708)	-	(101)
Lease liability, current	(14)	-	-
Trade and other payables	(745)	(159)	(207)
<b>Non-current liabilities</b>	<b>(1,475)</b>	<b>-</b>	<b>(705)</b>
<i>including:</i>			
Long-term borrowings	(1,282)	-	(666)
Deferred income	(56)	-	-
Other provisions for liabilities and charges	(41)	-	-
Deferred tax liabilities	(96)	-	(33)
Lease liability, non-current	-	-	(6)
<b>Total equity</b>	<b>1,861</b>	<b>113</b>	<b>466</b>
<b>Attributable to:</b>			
Equity holders of parent	949	90	316
Non-controlling interests	912	23	150

*(Amounts presented are in millions of Azerbaijani Manats, unless otherwise stated)***40. Material partly-owned subsidiaries (continued)**

Summarised statement of financial position as at 31 December 2018:

	Petkim	BOS Shelf International FZCO	SOCAR Polymer LLC
<b>Current assets</b>	<b>2,571</b>	<b>226</b>	<b>67</b>
<i>including:</i>			
Cash and cash equivalents	967	130	6
Trade and other receivables	385	49	29
Inventories	366	2	20
Other current assets	853	45	12
<b>Non-current assets</b>	<b>2,145</b>	<b>7</b>	<b>1,330</b>
<i>including:</i>			
Property, plant and equipment	1,759	6	1,319
Intangible assets	232	1	5
Other non-current assets	154	--	6
<b>Current liabilities</b>	<b>(1,240)</b>	<b>(145)</b>	<b>(244)</b>
<i>including:</i>			
Short-term borrowings and current portion of long-term borrowings	(480)	--	(133)
Trade and other payables	(760)	(145)	(111)
<b>Non-current liabilities</b>	<b>(1,582)</b>	<b>--</b>	<b>(683)</b>
<i>including:</i>			
Long-term borrowings	(1,383)	--	(683)
Deferred income	(57)	--	--
Other provisions for liabilities and charges	(34)	--	--
Deferred tax liabilities	(108)	--	--
<b>Total equity</b>	<b>1,894</b>	<b>88</b>	<b>470</b>
<b>Attributable to:</b>			
Equity holders of parent	966	70	267
Non-controlling interests	928	18	203

Summarised cash flow information for year ended 31 December 2019:

	Petkim	BOS Shelf International FZCO	SOCAR Polymer LLC
Operating	414	89	(38)
Investing	(187)	4	(10)
Financing	53	(84)	44
Net foreign exchange difference on cash and cash equivalents	(93)	--	--
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>187</b>	<b>9</b>	<b>(4)</b>

Summarised cash flow information for year ended 31 December 2018:

	Petkim	BOS Shelf International FZCO	SOCAR Polymer LLC
Operating	478	80	(106)
Investing	(888)	(3)	(66)
Financing	832	(169)	143
Net foreign exchange difference on cash and cash equivalents	(112)	(4)	(1)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>310</b>	<b>(96)</b>	<b>(30)</b>

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

#### **41. Events after reporting date**

##### **COVID-19**

On 30 January 2020, the World Health Organization (WHO) declared the coronavirus outbreak a "Public Health Emergency of International Concern". In light of the recent rapid development of the coronavirus (COVID-19) pandemic, many countries introduced quarantine measures. The outbreak resulted in drastic decline in trading and economic activity over the globe and unprecedented economic downturn put significant pressure on demand for oil and oil products which ultimately resulted in sharp drop in oil prices. It is expected that both the pandemic itself and measures to minimize its consequences can affect the operations of companies from various industries. The Group considers this pandemic as a non-adjusting event after the reporting period.

##### **Charter capital and additional paid-in capital**

During subsequent period, the Group's additional paid-in capital was increased in the amount of AZN 40. In addition, additional paid-in capital in the amount of AZN 62 was registered to charter capital.

##### **New loans**

Subsequent to reporting period, the Group obtained new long-term and short-term loans in the amount of AZN 964 (USD 567 million), AZN 46 (EUR 24 million), AZN 153 (TRY 537 million) and AZN 8 (RUB 308 million) from several local and international banks.

##### **Loan repayments**

During subsequent period, the Group repaid its outstanding loans in the amount of AZN 887 (USD 522 million), AZN 156 (TRY 545 million), AZN 4 (RUB 144 million), AZN 9 (GEL 16 million) and AZN 26 to several local and international banks.

##### **Investments**

On 21 January 2020, the Group acquired 16.3 per cent shares of SOCAR Energy Georgia for the consideration of AZN 65 (USD 38 million). As a result, the Group's controlling ownership in SOCAR Energy Georgia increased from 75.5 per cent to 91.8 per cent.