

**STATE CONTRACT CORPORATION
OF THE REPUBLIC OF AZERBAIJAN
“AZERKONTRAKT” OPEN JOINT-
STOCK COMPANY**

**Special-Purpose Financial Statements and
Independent Auditors' Report**
For the Year Ended December 31, 2021

**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
“AZERKONTRAKT” OPEN JOINT-STOCK COMPANY**

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the special-purpose financial statements of State Contract Corporation of the Republic of Azerbaijan "Azerkontrakt" Open Joint-Stock Company (the "Company").

Management is responsible for the preparation of the special-purpose financial statements that present fairly the financial position of the Company as at December 31, 2021 and January 1, 2021, the results of its operations, changes in equity and cash flows for the year ended December 31, 2021, in accordance with the basis of accounting as described in Note 3 to these special-purpose financial statements.

In preparing the special-purpose financial statements, management is responsible for:

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

Management is also responsible for:

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

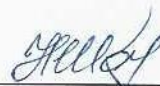
The special-purpose financial statements for the year ended December 31, were authorized for issue on December 6, 2022 by the Management of the Company.

On behalf of the Management:



Guladdin Dadashov
Deputy Director

December 6, 2022
Baku, the Republic of Azerbaijan



Shahnisa Nuriyeva
Acting Head of Finance Division

December 6, 2022
Baku, the Republic of Azerbaijan

INDEPENDENT AUDITORS' REPORT

To the Management of the State Contract Corporation of the Republic of Azerbaijan "Azerkontrakt" Open Joint-Stock Company:

Opinion

We have audited the special-purpose financial statements of State Contract Corporation of the Republic of Azerbaijan "Azerkontrakt" Open Joint-Stock Company (the "Company"), which comprise the special-purpose statement of financial position as at December 31, 2021 and January 1, 2021, and the special-purpose statements of profit or loss and other comprehensive income, special-purpose statements of changes in equity and special-purpose statements of cash flows for the year ended December 31, 2021 and notes to the special-purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special-purpose financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and January 1, 2021 and its financial performance and its cash flows for the year ended December 31, 2021 in accordance with the basis of accounting as described in Note 3 to special-purpose financial statements.

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 Auditors' Responsibilities for the Audit of the Special-Purpose Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 3 to the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements are prepared to assist the Company in evaluation of the financial position and operational results of the Company. As a result, the special-purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with the basis of accounting as described in Note 3 to these special-purpose financial statements and for such internal control as management determines is necessary to enable the preparation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Special-Purpose Financial Statements

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



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

Baker Tilly Azerbaijan

December 6, 2022
Baku, the Republic of Azerbaijan

STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
 "AZERKONTRAKT" OPEN JOINT-STOCK COMPANY

SPECIAL-PURPOSE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2021

(In Azerbaijani Manats)


	Notes	Year ended December 31, 2021
Revenue from sales of natural gas	8	1,200,043,556
Operating expenses		
Cost of natural gas		(1,025,813,907)
Transportation expenses		(59,393,046)
Cost of delivery of natural gas into underground gas storage		(15,416,624)
Losses related to underground gas storage		(5,667,953)
Cost of taking of natural gas from underground gas storage		(4,023,950)
Losses on transportation		(3,608,201)
Transit fees		(3,115,710)
Technological consumption		(3,076,673)
Total operating expenses		(1,120,116,064)
Other income/(expenses)		
Income from transportation of natural gas		25,623,036
Interest expense		(745,403)
Other income/(expenses), net	9	(435,299)
Profit before income tax		104,369,826
Income tax expense	10	(20,873,965)
Net profit for the year		83,495,861
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		83,495,861

On behalf of the Management:


 Guladdin Dadashov
 Deputy Director

December 6, 2022
 Baku, the Republic of Azerbaijan




 Shahnisa Nuriyeva
 Acting Head of Finance Division

December 6, 2022
 Baku, the Republic of Azerbaijan

The selected explanatory notes on pages 9 to 37 form an integral part of these special-purpose financial statements.

**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
“AZERKONTRAKT” OPEN JOINT-STOCK COMPANY**

**SPECIAL-PURPOSE STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021 AND JANUARY 1, 2021
(In Azerbaijani Manats)**


	Notes	December 31, 2021	January 1, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	11	91,897,090	58
Trade and other receivables	12	37,854,374	7,918
Inventories	13	182,226,113	-
Other current assets	14	46,350,729	-
Total current assets		358,328,306	7,976
Non-current assets			
Deferred tax assets	10	49,158	37,375
Total non-current assets		49,158	37,375
TOTAL ASSETS		358,377,464	45,351
LIABILITIES AND EQUITY			
LIABILITIES:			
Current liabilities:			
Trade and other payables	15	181,188,165	36,316
Borrowings	16	93,684,403	-
Total current liabilities		274,872,568	36,316
TOTAL LIABILITIES		274,872,568	36,316
EQUITY:			
Share capital	17	13,538,682	13,538,682
Other capital	18	(13,538,682)	(13,538,682)
Retained earnings		83,504,896	9,035
Total equity		83,504,896	9,035
TOTAL LIABILITIES AND EQUITY		358,377,464	45,351

On behalf of the Management:


Guladdin Dadashov
Deputy Director



December 6, 2022
Baku, the Republic of Azerbaijan


Shahnisa Nuriyeva
Acting Head of Finance Division

December 6, 2022
Baku, the Republic of Azerbaijan

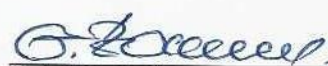
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**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
"AZERKONTRAKT" OPEN JOINT-STOCK COMPANY**

**SPECIAL-PURPOSE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Azerbaijani Manats)**

	Share capital	Other capital	Retained earnings	Total equity
January 1, 2021	13,538,682	(13,538,682)	9,035	9,035
Total comprehensive income for the year	-	-	83,495,861	83,495,861
December 31, 2021	<u>13,538,682</u>	<u>(13,538,682)</u>	<u>83,504,896</u>	<u>83,504,896</u>

On behalf of the Management:



Guladdin Dadashov
Deputy Director

December 6, 2022
Baku, the Republic of Azerbaijan



Shahnisa Nuriyeva
Acting Head of Finance Division

December 6, 2022
Baku, the Republic of Azerbaijan

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**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
"AZERKONTRAKT" OPEN JOINT-STOCK COMPANY**

**SPECIAL-PURPOSE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021**

(In Azerbaijani Manats)


	Notes	Year ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax		104,369,826
Adjustments to reconcile profit before income tax to net cash flows:		
Interest expense		745,403
		105,115,229
Operating cash flows before working capital changes:		
Working capital adjustments:		
Change in trade and other receivables		(37,846,456)
Change in inventories		(182,226,113)
Change in other current assets		(46,350,729)
Change in trade and other payables		160,266,101
		(1,041,968)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings		93,500,000
Interest paid on borrowings		(561,000)
		92,939,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		
		91,897,032
CASH AND CASH EQUIVALENTS, beginning of the year	11	58
CASH AND CASH EQUIVALENTS, end of the year	11	91,897,090

On behalf of the Management:


Guladdin Dadashov
Deputy Director



December 6, 2022
Baku, the Republic of Azerbaijan


Shahnisa Nuriyeva
Acting Head of Finance Division

December 6, 2022
Baku, the Republic of Azerbaijan

The selected explanatory notes on pages 9 to 37 form an integral part of these special-purpose financial statements.

STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN “AZERKONTRAKT” OPEN JOINT-STOCK COMPANY

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

(In Azerbaijani Manats)

1. CORPORATE INFORMATION

The Company and its principal activities

State Contract Corporation “Azerkontrakt” Open Joint Stock Company (hereinafter – “Company”) was established on the basis of the former Ministry of Material Resources and Ministry of Trade, with 100% state-owned shares, by the Decree of the President of the Republic of Azerbaijan No. 519 dated December 17, 1996.

Until January 1, 2021, activities of the Company consisted of the following:

- Material and technical support of the state needs of the Republic of Azerbaijan, strategically important production and construction programs, organization of interstate economic relations in this field;
- Assisting enterprises and organizations, regardless of the form of ownership, in the development of direct relations on the purchase and sale of products;
- Studying the demand of the internal consumer market of the Republic of Azerbaijan for production-technical products and basic consumer goods and giving recommendations to the central executive authorities;
- Helping the development of industry and increasing the efficiency of production by providing raw materials and materials, as well as attracting foreign investments, bank loans and other financial resources for this purpose;
- Providing marketing, transportation, rental, leasing, information and other services to enterprises and organizations, as well as to the population, regardless of the form of ownership.

According to the Decision No. 513 of the Cabinet of Ministers of the Republic of Azerbaijan dated December 28, 2020, starting from January 1, 2021, the purchase of natural gas from suppliers in the domestic market, organization of its transportation, sale to domestic distributors and consumers entrusted to the Company.

The purchase price of natural gas is fixed based on the contracts signed with suppliers (price of natural gas purchased from “Azneft” Production Union is derived from tariffs set by the Tariff Council of the Republic of Azerbaijan), while transportation costs and revenues are derived from tariffs set by the Tariff Council of the Republic of Azerbaijan.

The list of suppliers for purchase of natural gas consisted of the followings:

- “Azneft” Production Union;
- “Azerbaijan Gas Supply Company” Limited;
- “Umid Babek Operating Company”;
- “Bahar Energy Operating Company”;
- “Gobustan Operating Company”;
- “Petro Hong Kong Pirsaat Oil” Limited.

The list of customers for sales of natural gas consisted of the followings:

- “Azerenerji” OJSC;
- “Azerigas” Production Union;
- The Nakhchivan Autonomous Republic Gas Export Institution.

During the year ended December 31, 2021, 316,379 m³ (or AZN 22,881 VAT excluded) of the gas in the monetary terms of volumes that should be transferred to the Company by the “Gas Export” Entity of State Oil Company of the Azerbaijan Republic (“SOCAR”) were used for the internal needs of that Entity and the value has not been paid to the Company.

**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
“AZERKONTRAKT” OPEN JOINT-STOCK COMPANY**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**
(In Azerbaijani Manats)

The ultimate controlling party of the Company is the Republic of Azerbaijan.

Legal address of the Company

The Company’s registered address is Yasamal district, Shafayet Mehdiyev street 177, AZ1141 Baku, the Republic of Azerbaijan.

2. OPERATING ENVIRONMENT OF THE COMPANY

During 2020, the global economy was negatively impacted by the spread of the coronavirus pandemic. Significant restrictions on travel and movement of individuals and the closure of non-essential businesses have either been imposed in most countries or have happened as a result of the pandemic. This has led to significant declines in GDP in most if not all large economically strong countries in which the Republic of Azerbaijan is in a trade relationship. Starting from June 2020 many countries including the Republic of Azerbaijan demonstrated improvement in the signs of pandemic and certain restrictions were lifted subsequently.

As a result, recovery in global financial and commodity markets observed. However, subsequently the number of reported cases significantly increased in the Republic of Azerbaijan, and the government introduced new restrictions from mid-December 2020.

The restrictive lockdown measures to combat COVID-19 in the country significantly reduced economic activity and aggregate spending levels. Certain segments of the economy, such as hotels, transport, travel, entertainment and many other businesses also international trade much affected by these measures.

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

Oil prices have decreased significantly due to the substantial reduction in oil consumption in the pandemic environment but demonstrated stable growth during the second quarter of 2020, however, prices for energy resources gradually went up as a result of the recovery of world economy in 2021.

The Company’s operations are conducted mainly in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan’s economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani Manat. Although the economy of the Republic of

Azerbaijan is particularly sensitive to oil and gas prices, during recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector. GDP in Azerbaijan was USD 54.62 billion in 2021, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, Azerbaijan’s GDP is projected to trend around USD 54.73 billion in 2022 and USD 55.98 billion in 2023, according to the econometric models.

**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
“AZERKONTRAKT” OPEN JOINT-STOCK COMPANY**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**
(In Azerbaijani Manats)

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2021 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 6.25% - 7.25% with a steady increase in rates.

The Company's management is monitoring changes in the macroeconomic environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Company's business in the foreseeable future.

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated the rating of the Republic of Azerbaijan as “BB+”. Moody's Investors Service set “Ba2” credit rating for the country.

3. SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial year of the Company ends on the last day of December. The special-purpose financial statements of the Company have been prepared based on financial reporting framework adjusted to IFRS, except for the application and disclosure requirements of “IFRS 10 – Consolidated Financial Statements” (consolidated financial statements are not required under special-purpose financial reporting framework.) and valuation and disclosure of related financial statement elements - investment in subsidiaries and other capital and required for disclosure of comparative information. Investment in subsidiaries are excluded from special-purpose financial statements through other capital under special-purpose reporting framework.

Going concern

These special-purpose financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

Management views the Company as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan.

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

Management's assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

The principal accounting policies are set out below:

**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
"AZERKONTRAKT" OPEN JOINT-STOCK COMPANY**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**
(In Azerbaijani Manats)

Current versus non-current classification

The Company presents assets and liabilities in the special-purpose financial statements based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

The core principle of IFRS 15 is that the Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Substantially all of the Company revenues are derived from rates authorized by the Tariff Council of the Republic of Azerbaijan through its tariffs. Tariff rates represent the transaction prices. Performance obligations created under these tariff based sales include commodity (the cost of natural gas sold to customers) and delivery (transporting natural gas through distribution system to customers). The delivery of natural gas to customers results in the satisfaction of the Company's respective performance obligations over time. All customers are billed monthly based on consumptions as measured by metered usage. Revenue is recognized as bills are issued for natural gas that has been delivered or transported.

**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
"AZERKONTRAKT" OPEN JOINT-STOCK COMPANY**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

(In Azerbaijani Manats)

Other income and expenses

Other income and expenses are recognized on an accrual basis.

Employee benefits

Wages, salaries, contributions to the State Pension Fund of the Republic of Azerbaijan, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and food) are accrued in the year in which the associated services are rendered by the employees of the Company.

Financial instruments

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
“AZERKONTRAKT” OPEN JOINT-STOCK COMPANY**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**
(In Azerbaijani Manats)

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

For purchased or originated credit-impaired financial assets, a credit adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI.

For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

The Company's majority of financial assets were classified as financial assets measured subsequently at amortized cost. The Company's financial liabilities were classified as financial liabilities measured subsequently at amortized cost. The Company does not choose to classify any financial liabilities as measured at fair value through profit or loss.

Impairment of financial assets

The Company applies the expected credit loss model to financial assets measured at amortized cost or at fair value through other comprehensive income.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset (except trade receivables, where the simplified approach is elected) is measured at an amount equal to 12-month expected credit losses. For trade and other receivables, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses are applied (simplified approach).

**STATE CONTRACT CORPORATION OF THE REPUBLIC OF AZERBAIJAN
“AZERKONTRAKT” OPEN JOINT-STOCK COMPANY**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
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The Company utilizes an internal model to assess expected credit losses. The model was developed in accordance with IFRS 9 and designed to assess the credit risk exposure of counterparties taking into account the characteristics of financial assets by assigning a scoring system to counterparties. Assigned score is returning PD (Probability of Default) on an individual basis. Move of the asset from one score band to a lower score band is considered significant increase in credit risk among other criteria.

Fair value measurement

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 by the Company. 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. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the special-purpose financial statements are categorized 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 special-purpose financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of financial liability.

Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

De-recognition of financial liabilities

The Company removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished - ie when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

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The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Company has a legally enforceable right to set off the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Company does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value, but exclude any restricted cash.

Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Restricted cash is not available for use by the Company and therefore is not considered highly liquid, for example, cash set aside to cover rehabilitation obligations. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

Trade and other receivables

Trade and other receivables are carried at amortized cost using the effective interest method. The Company uses a provision matrix to calculate expected credit losses for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. Where applicable, the Company relies on default rates derived from external rates of counterparties.

The assessment of the correlation between historically observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and forecast economic conditions.

The Company's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

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Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

Inventories

Natural gas in storage is recorded at average cost. Natural gas storage injections are priced at the purchase cost at the time of injection and storage withdrawals are priced at the weighted average cost of gas in storage.

At the yearend the natural gas in storage are stated at the lower of cost and net realizable value. Cost comprises the direct purchase costs, excluding cost of transportation and lost and unaccounted for gas which occur after the inventory is ready for its intended use or sale. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Lost and unaccounted for gas is the difference between the gas measured into the distribution system and gas measured out of the utility system or otherwise accounted for. These differences are due to the fact that changes in pressure and temperature cause large changes in volume. Lost and unaccounted for gas is not necessarily gas leaked into the air.

Advances paid to suppliers

Advances paid to suppliers are carried at cost less provision for impairment. An advances paid to suppliers is classified as non-current when the goods or services relating to the advances to suppliers are expected to be obtained after one year, or when the advances paid to suppliers relates to an asset which will itself be classified as non-current upon initial recognition.

Advances paid to suppliers to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other advances paid to suppliers are written off to profit and loss accounts when the goods or services relating to the advances paid to suppliers are received. If there is an indication that the assets, goods or services relating to an advances paid to suppliers will not be received, the carrying value of the advances paid to suppliers is written down accordingly and a corresponding impairment loss is recognized in profit and loss accounts.

Taxation

Income taxes

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the special-purpose financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

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Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Company has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liability relate to income taxes levied by the same taxation authority on the same taxable entity.

Value-added tax

The difference of output VAT and claimable input VAT is payable to the state budget within 20 days following the reporting month. Output value-added tax related to sales is payable to tax authorities on the earlier of: (a) when the receivables from customers are paid or (b) when the goods or services are provided to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT electronic invoice. VAT related to sales and purchases is recognized in the statement of financial position in the total amount and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Advances received from customers

Advances received from customers refer to an item that will initially be recorded as a liability. Advances received from customers are initially recorded at the fair value of consideration received plus any directly attributable transaction costs, and subsequently are carried at amortized cost.

VAT deposit account

The Value Added Tax (“VAT”) deposit account system is a system introduced in 2008 by the Ministry of Economy of the Republic of Azerbaijan which aims prevention of VAT misuse. From January 1, 2008 on the basis of amendments to the Tax Code, the amount of VAT refund is considered the tax amount which is paid, according to the submitted electronic invoices to the taxpayer’s VAT deposit account in the framework of transactions carried out in this account.

By the support of this module the taxpayer pays the amount of VAT indicated on the VAT electronic invoices to the VAT sub-account of another taxpayer. At the same time tax obligations to the state budget regarding all kinds of taxes and VAT amounts on the import transactions payable to the State Customs Committee, can be paid by taxpayers through the VAT deposit account.

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Information about paid amounts is transferred by the Ministry of Taxes to the Main State Treasury (“MST”) and then to the Central Bank of the Republic of Azerbaijan (“CBRA”). CBRA on the basis of information submitted by the Main State Treasury ensures the transformation of amounts to the relevant local treasury authorities. The State Tax Services ensures the inclusion of amounts which is noted in the submitted information to the taxpayer’s personal score sheet. The current system is connected with the Automated Tax Information System of the Ministry of Taxes. At the same time, online exchange of information was organized with the MST and CBRA.

Implementation of the VAT deposit account makes it possible to timely control payments and refunded VAT amounts. Taxpayers who have tax debts can only transfer these amounts to the state budget.

Taxpayers can make payments to the state budget without visiting banks, to the VAT sub-account of other taxpayers and to the customs committee through the deposit account. The Ministry of Taxes automatically controls all transactions carried out through the VAT deposit account using special software.

Use of balances in the VAT deposit account is restricted and can be used only for transactions connected with VAT and other applicable taxes.

The Republic of Azerbaijan also has various other taxes, which are assessed on the Company’s activities. These taxes are included in the statement of profit or loss and other comprehensive income.

Foreign currency translation

Functional currency of the Company is the currency of the primary economic environment in which the entity operates. The Company’s functional currency AZN is the national currency of the Republic of Azerbaijan.

Monetary assets and liabilities are translated into entity’s functional currency at the official exchange rate of the Central Bank of the Republic of Azerbaijan (“CBRA”) at the respective reporting dates.

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the CBRA are recognized in the statement of profit or loss and other comprehensive income.

Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The exchange rates at the year-end used by the Company in the preparation of the special-purpose financial statements are as follows:

	December 31,	January 1,
	2021	2021
AZN/USD 1	1.7000	1.7000

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Contingent liabilities and assets

Contingent liabilities are not recognized in the special-purpose financial statements. They are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the special-purpose financial statements but disclosed when an inflow of economic benefits is probable.

4. CRITICAL ACCOUNTING ESTIMATE AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the IFRS special-purpose financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and disclosure of contingent liabilities during the reporting period.

As a result of the uncertainties inherent in business activities, many items in special-purpose financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest information available when the special-purpose financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions made by the Company when they occur.

The most significant estimates relate to the net realisable value of inventory, recoverability of receivable for transportation services, valuation of VAT input, fair value of financial instruments, provision for tax and legal contingencies and deferred taxation. Actual results could differ from these estimates.

Judgments

In the process of applying the Company's accounting policies, the management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in IFRS special-purpose financial statements.

Net realisable value of inventory

Provision for net realizable value of inventory is accrued based on the Company's assessment of inventory items. Write-down of inventories become necessary if they are damaged, obsolete or their selling price decreased. Inventory write-down occurs based on assessment of obsolescence and usefulness of the inventories by the management of the Company at the year-end.

Losses on natural gas reserves

The Company assesses the losses of natural gas reserves. There are two types of losses, which are assessed by the Company. These include losses on transportation and technological consumption during the transportation of natural gas.

- Losses on natural gas reserves in underground gas storage occurs when the natural gas reserves are delivered into the underground gas storage, are held there and are taken from the underground gas storage.
- Losses on transportation and technological consumption occur in the process of transporting natural gas.

Both types of losses excluded from cost of natural gas due to they are incurred after the purchased natural gas is ready for its intended sale.

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Recoverability of VAT

At each reporting date the Company assesses the recoverability of VAT arising on purchase of goods and services. The Company can only receive these amounts through an offset against future VAT liability or collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Company considers information from the internal tax department regarding projected VAT liability, correspondence with government tax authorities, and historical recovery experience.

The actual amount of VAT recovery could differ materially from the Company’s estimate and this could materially impact operating results.

Recoverability of receivable for transportation services of natural gas

As at December 31, 2021, the Company had receivable for transportation of natural gas from “Azerigas” Production Union in the amount of AZN 30,235,182. The management assumes that this amount is recoverable and will be received during the short-term period or will be agreed trilaterally with “Azerigas” Production Union and Gas Export Entity of SOCAR for mutual settlement with the payable of the same amount to Gas Export Entity of SOCAR.

Fair value measurement of financial instruments

A number of the Company’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Current taxes

Azerbaijani tax legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the Management. As a result, tax authorities may challenge transactions and the Company may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

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5. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Company has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the year ended December 31, 2022.

IASB has published “**Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)**” as a first reaction to the potential effects the IBOR reform could have on financial reporting. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

IFRS 3 Business Combinations. Amendment of the definition of “Business” – The amendments help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business.

According to the amendment new definition a “business” is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

New definition of “Material” – The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgements. The updated definition amends IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards.

According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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.

On May 15, 2020 IASB has published “**COVID-19-Related Rent Concessions (Amendment to IFRS 16)**” amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The changes in Covid-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

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The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The impact of the adoption of this standard had an immaterial effect on the special-purpose financial statements.

Unless otherwise disclosed, the new adopted standards did not have material effect on the special-purpose financial statements of the Company.

6. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Company in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRS 17 “Insurance contracts” – was issued in May 2019 and replaced IFRS 4 “Insurance contracts”. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 “Insurance Contracts” to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. This standard is not applicable to the Company.

Amendments to IAS 1 to clarify the classification of liabilities – In January 2020 the IASB has issued “**Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**” providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position – not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted.

Reference to the Conceptual Framework – Amendments to IFRS 3 – In May 2020, the IASB issued **Amendments to IFRS 3 “Business Combinations” – Reference to the Conceptual Framework**. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

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Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments – Fees in the “10 percent” test for derecognition of financial liabilities. As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

“IAS 41 Agriculture” – Taxation in fair value measurements. As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

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Unless otherwise disclosed, the new standards are not expected to have a material effect on the special-purpose financial statements of the Company.

7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties are defined in IAS 24 “Related Party Disclosures”. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company’s immediate parent is the

State Customs Committee of Azerbaijan Republic, which is fully controlled by the Government of the Republic of Azerbaijan.

The Company applied the exemption in paragraph 25 of IAS 24 “Related Party Disclosures” regarding the disclosure requirement for government related entities.

A reporting entity is exempt from the disclosure requirements of paragraph 18 of IAS 24 “Related Party Disclosures” in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

The nature of transactions with government related entities include purchase of electricity, gas, petrol and receiving other services.

Total compensations to key management personnel for the year ended December 31, 2021 was AZN 8,373.

8. REVENUES

Revenue by companies comprises:

	Year ended December 31, 2021
Revenue from “Azerigas” Production Union	590,046,703
Revenue from “Azerenerji” OJSC	587,907,121
Revenue from the Nakhchivan Autonomous Republic Gas Export Institution	22,089,732
Total revenues	<u>1,200,043,556</u>

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Wholesale prices of natural gas are regulated by the Tariff Council of the Republic of Azerbaijan. The prices were changed twice by the Tariff Council of the Republic of Azerbaijan during the year ended December 31, 2021. The wholesale price of natural gas per thousand cubic meter was AZN 75 for “Azerigas” PU and Gas Operation Service of Nakhchivan Autonomous Republic and AZN 120 for “Azerenerji” OJSC from January 1, 2021 to June 30, 2021, AZN 110 for “Azerigas” PU and Gas Operation Service of Nakhchivan Autonomous Republic and AZN 130 for “Azerenergy” OJSC from July 1, 2021 to October 31, 2021, AZN 118 for “Azerigas” PU and Gas Operation Service of Nakhchivan Autonomous Republic and AZN 165 for “Azerenergy” OJSC from November 1, 2021.

9. OTHER INCOME/EXPENSES, NET

Other income/expenses, net comprise:

	Year ended December 31, 2021
Bank charges	286,691
Employee related expenses	64,909
Custom fee	45,355
Expertise expense	36,770
Professional fees	13,335
Other income and expenses, net	<u>(11,761)</u>
Total other income/expenses, net	<u>435,299</u>

10. INCOME TAXES

The Company measures and records its current income tax payable and its tax bases related to assets and liabilities in accordance with the statutory tax regulation of the country where the Company operates, which differs from IFRS.

The Company is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at December 31, 2021 and January 1, 2021 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases differences for certain assets.

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Relationships between tax expenses and accounting profit for the year ended December 31, 2021:

	December 31, 2021	January 1, 2021
Deductible temporary differences:		
Tax losses carried forward	-	110,150
Trade and other receivables	76,727	76,727
Borrowings	184,403	-
Total deductible temporary differences	<u>261,130</u>	<u>186,877</u>
Taxable temporary differences:		
Inventories	(15,338)	-
Total taxable temporary differences	<u>(15,338)</u>	<u>-</u>
Net deductible temporary differences	245,792	186,877
Deferred tax asset at 20%	<u>49,158</u>	<u>37,375</u>
		Year ended December 31, 2021
Profit before income tax		104,369,826
Statutory tax rates		20%
Theoretical tax at the statutory tax rate		(20,873,965)
Income tax expense		<u>(20,873,965)</u>
Current income tax expense		(20,885,748)
Change in deferred tax asset		11,783
Income tax expense		<u>(20,873,965)</u>
		December 31, 2021
Deferred tax asset		
Beginning of the year		<u>37,375</u>
Change in the deferred tax asset for the year credited to profit and loss accounts		11,783
End of the year		<u>49,158</u>

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11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	December 31, 2021	January 1, 2021
Cash in bank accounts	91,897,090	58
Total cash and cash equivalents	91,897,090	58

All bank accounts are held in “Kapital Bank” OJSC as at December 31, 2021 and January 1, 2021.

There were no restrictions on the use of cash and cash equivalents as at December 31, 2021 and January 1, 2021.

The geographical concentration of the Company’s cash and cash equivalents was the Republic of Azerbaijan.

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprises:

	December 31, 2021	January 1, 2021
Trade receivables from the customers	7,619,192	-
Receivables from the transportation services of natural gas	30,235,182	-
Total financial receivables	37,854,374	-
Other receivables	-	7,918
Total trade and other receivables	37,854,374	7,918

13. INVENTORIES

Inventories comprises:

	December 31, 2021	January 1, 2021
Natural gas reserves in underground gas storage	151,060,535	-
Natural gas reserves in foreign countries	31,165,578	-
Total inventories	182,226,113	-

From April 1, 2021, the Company has been using underground gas storage in order to provide consumers with uninterrupted natural gas. The volume of natural gas reserves belonging to Company in underground gas storage was 1,702,957,644 m³ as at December 31, 2021.

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The Company held natural gas reserves in two foreign countries, the Russian Federation and Iran Islamic Republic in the amount of AZN 30,483,635 and AZN 681,943, respectively.

According to the natural gas exchange agreement No. AZ-CH-2021 dated July 23, 2021, signed between Gazprom Schweiz AG Company of the Russian Federation and the Company, natural gas exchanged to the Russian Federation in the amount of 326,532,396 m³ on the territory of the Russian Federation, which will be returned to the Company during 2022 and 2023.

In order to supply the Nakhchivan Autonomous Republic of the Republic of Azerbaijan with natural gas, there are 9,010,479 m³ of natural gas reserves remaining in the pipeline in the territory of the Islamic Republic of Iran within the scope of the natural gas SWOP contract concluded between the National Iranian Gas Export Company (NIGEC) of the Islamic Republic of Iran and the State Oil Company of the Azerbaijan Republic “Azerigas” PU on August 5, 2004.

14. OTHER CURRENT ASSETS

Other current assets comprise:

	December 31, 2021	January 1, 2021
VAT deposit account	37,074,987	-
Substituted VAT	8,837,589	-
Advance paid to suppliers	438,153	-
Total other current assets	46,350,729	-

Advance paid to suppliers includes prepayments made to suppliers for purchase of natural gas.

15. TRADE AND OTHER PAYABLES

Trade and other payables comprise:

	December 31, 2021	January 1, 2021
Trade payables	130,388,845	36,316
Total financial payables	130,388,845	36,316
Tax payables	43,249,589	
Advances received from customers	2,094,891	-
VAT output	5,454,840	-
Total trade and other payables	181,188,165	36,316

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16. BORROWINGS

	December 31, 2021	December 31, 2020
"International Bank of Azerbaijan" OJSC	40,880,467	-
"Kapital Bank" OJSC	40,880,467	-
"Azer-Turk Bank" OJSC	11,923,469	-
Total borrowings	<u>93,684,403</u>	<u>-</u>

On October 21, 2021, the Company entered into a credit agreement in the amount of USD 55,000,000 with an annual interest rate of 1% under guarantee of Ministry of Finance of the Republic of Azerbaijan, maturing on October 21, 2022 with "Kapital Bank" OJSC, "International Bank of Azerbaijan" OJSC and "Azer-Turk Bank" OJSC. As at December 31, 2021, the outstanding amount was AZN 93,684,403.

A reconciliation of the opening and closing amounts of borrowings with relevant cash and non-cash changes from financing activities is stated below:

	Amount
January 1, 2021	-
Cash flows	
Proceeds from borrowings	93,500,000
Interest paid on borrowings	<u>(561,000)</u>
Non-cash changes	
Interest expense	<u>745,403</u>
December 31, 2021	<u>93,684,403</u>

The geographical concentration of the Company's borrowings was the Republic of Azerbaijan.

17. SHARE CAPITAL

The nominal value of the registered amount of the Company's issued share capital as at December 31, 2021 was AZN 13,538,682 (January 1, 2021: AZN 13,538,682).

The total authorized number of ordinary shares was 6,769,341 shares, with a par value of AZN 2 per share (January 1, 2021: 6,769,341 shares with a par value of AZN 2).

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18. OTHER CAPITAL

Under the special-purpose financial reporting framework, the subsidiaries are not included in the special-purpose financial statements. The cost of subsidiaries in the amount of AZN 13,538,682 were excluded from the special-purpose financial statements through the other capital.

19. COMMITMENTS AND CONTINGENCIES

Legal proceedings

In the normal course of business, the Company might receive claims from customers and counterparties. The Management expects that no material un-accrued losses will be incurred and accordingly no provision has been made in these special-purpose financial statements.

Tax legislation

Tax legislation of the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently. The Management’s interpretation of such legislation as applied to the transactions and activities of the Company may be challenged by the relevant authorities.

Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review.

Under certain circumstances, reviews may cover longer periods. The Management believes that its interpretation of the relevant legislation is appropriate and the Company’s tax will be sustained.

20. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Company’s business and is an essential element of its operations. The main risks inherent to the Company’s operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives. Through the risk management framework, the Company manages the following risks:

Credit risk

The Company is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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Maximum exposure

The Company’s maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

Geographical concentration

Assets, liabilities and credit-related commitments have been based on the country, in which the counterparty is located. Balances with counterparties located in the Republic of Azerbaijan actually outstanding to/from companies of these counterparties are allocated to the caption “The Republic of Azerbaijan”.

The geographical concentration of the Company’s financial assets and liabilities was disclosed in the relevant notes.

Liquidity risk

Liquidity risk is defined as the risk when the maturity of financial assets and liabilities does not match. Liquidity risk is managed by the Finance Department of the Company. The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratio.

The liquidity risk of the Company’s financial assets and liabilities as at December 31, 2021 is set out below:

	Up to 1 month	1 month to 3 months	3 months to 1 year	Total
FINANCIAL ASSETS				
Cash and cash equivalents	91,897,090	-	-	91,897,090
Trade and other receivables	37,854,374	-	-	37,854,374
Total financial assets	129,751,464	-	-	129,751,464
FINANCIAL LIABILITIES				
Trade and other payables	130,388,845	-	-	130,388,845
Borrowings	184,403	-	93,500,000	93,684,403
Total financial liabilities	130,573,248	-	93,500,000	224,073,248
Liquidity gap	(821,784)	-	(93,500,000)	(94,321,784)
Cumulative liquidity gap	(821,784)	(821,784)	(94,321,784)	

As at December 31, 2021 and January 1, 2021 the Company had negative cumulative liquidity gap. The management of the Company plans to cover this gap with future cash flows through sales.

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The liquidity risk of the Company’s financial assets and liabilities as at January 1, 2021 is set out below:

	Up to 1 month	1 month to 3 months	3 months to 1 year	Total
FINANCIAL ASSETS				
Cash and cash equivalents	58	-	-	58
Total financial assets	58	-	-	58
FINANCIAL LIABILITIES				
Trade and other payables	36,316	-	-	36,316
Total financial liabilities	36,316	-	-	36,316
Liquidity gap	(36,258)	-	-	(36,258)
Cumulative liquidity gap	(36,258)	(36,258)	(36,258)	

The liquidity risk of the Company’s financial assets and liabilities in accordance with IFRS 7 as at December 31, 2021 are set out below:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
Financial liabilities				
Borrowings	263,818	151,144	94,020,038	94,435,000
Total potential future payments for financial liabilities	263,818	151,144	94,020,038	94,435,000

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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The currency risk of the Company's financial assets and liabilities as at December 31, 2021 is set out below:

	AZN	USD	Total
FINANCIAL ASSETS			
Cash and cash equivalents	91,897,090	-	91,897,090
Trade and other receivables	37,854,374	-	37,854,374
TOTAL FINANCIAL ASSETS	129,751,464	-	129,751,464
FINANCIAL LIABILITIES			
Trade and other payables	43,536,943	86,851,902	130,388,845
Borrowings	-	93,684,403	93,684,403
TOTAL FINANCIAL LIABILITIES	43,536,943	180,536,305	224,073,248
OPEN CURRENCY POSITION	86,214,521	(180,536,305)	(94,321,784)

The currency risk of the Company's financial assets and liabilities as at January 1, 2021 is set out below:

	AZN	Total
FINANCIAL ASSETS		
Cash and cash equivalents	58	58
TOTAL FINANCIAL ASSETS	58	58
FINANCIAL LIABILITIES		
Trade and other payables	36,316	36,316
TOTAL FINANCIAL LIABILITIES	36,316	36,316
OPEN CURRENCY POSITION	(36,258)	(36,258)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The

Republic of Azerbaijan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets.

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Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The fair value of financial assets and liabilities recognized at cost or amortized cost in the statement of financial position is presented below:

	December 31, 2021		January 1, 2021	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	91,897,090	91,897,090	58	58
Trade and other receivables	37,854,374	37,854,374	-	-
Borrowings	93,684,403	93,684,403	-	-
Trade and other payables	130,388,845	130,388,845	36,316	36,316

The following table sets out the fair values of financial instruments not measured at fair value and analyzes them by the level in the fair value hierarchy into which each fair value measurement is categorized below:

	Financial instrument classification	Date of valuation	Quoted prices in active markets (Level 1)	Fair value measurement using		Total
				Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets for which fair values are disclosed						
Cash and cash equivalents	Financial assets at amortized cost	December 31, 2021	91,897,090	-	-	91,897,090
Trade and other receivables	Financial assets at amortized cost	December 31, 2021	-	-	37,854,374	37,854,374
Liabilities for which fair values are disclosed						
Trade and other payables	Financial liabilities at amortized cost	December 31, 2021	-	-	130,388,845	130,388,845
Borrowings	Financial liabilities at amortized cost	December 31, 2021	-	-	93,684,403	93,684,403

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	Financial instrument classification	Date of valuation	Quoted prices in active markets (Level 1)	Fair value measurement using		Total
				Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets for which fair values are disclosed						
Cash and cash equivalents	Financial assets at amortized cost	January 1, 2021	58	-	-	58
Liabilities for which fair values are disclosed						
Trade and other payables	Financial liabilities at amortized cost	January 1, 2021	-	-	36,316	36,316

22. EVENTS AFTER REPORTING PERIOD

On October 21, 2021 the Company was granted a loan of AZN 93,500,000 (USD 55,000,000) with an annual interest rate of 1% from “Kapital Bank” OJSC, “International Bank of Azerbaijan” OJSC and “Azer-Turk Bank” OJSC under the guarantee of the Ministry of Finance of the Republic of Azerbaijan. Since the beginning of 2022, the principal amount of AZN 30,090,000 and the interest amount of AZN 908,689 has been paid to the respective authorized banks. According to the Company’s application, the term of the loan agreement, which expired on October 21, 2022, was extended until February 28, 2023.

The natural gas prices were significantly increased in the world market. The Company’s main operation is to purchase natural gas from suppliers in the domestic market and sale to domestic distributors and consumers. Domestic purchase and sale prices are derived from fixed term contracts and tariffs set by the Tariff Council of the Republic of Azerbaijan. Therefore, the management estimates that the related change in natural gas prices in the global market will not have an effect to the special-purpose financial statements of the Company.