

**Southern Gas Corridor  
Closed Joint-Stock Company**

**Consolidated financial statements**

*For the year ended 31 December 2019  
with independent auditor's report*

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Ernst & Young Holdings (CIS) B.V.  
Port Baku Towers Business Centre  
South Tower, 9<sup>th</sup> Floor  
153, Neftçilər avenue  
Baku, AZ1010, Azerbaijan  
Tel: +994 (12) 490 7020  
Fax: +994 (12) 490 7017  
www.ey.com/az

Ernst & Yanq Holdings (SiAyEs) Bi.Vi.  
Port Baku Towers Biznes Mərkəzi  
Cənub Qülləsi, 9-cu mərtəbə  
153 Neftçilər prospekti  
Bakı, AZ1010, Azərbaycan  
Tel: +994 (12) 490 7020  
Faks: +994 (12) 490 7017

## Independent auditor's report

To Management and the Supervisory Board of the  
Southern Gas Corridor Closed Joint-Stock Company

### **Opinion**

We have audited the consolidated financial statements of the Southern Gas Corridor Closed Joint Stock Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### **Basis for opinion**

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

### **Key audit matters**

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

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

**Key audit matter**

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

***Impairment of non-current assets***

We considered this matter to be one of the most significance to our audit due to the significance of the balances of non-current assets including oil and gas properties, construction in progress, development costs and advance payments to the consolidated financial statements and high level of subjectivity in management's assessment of potential impairment indicators. In addition, volatility of oil prices over the last few years and change in the discount rates impact the Group's cash flows projections.

Significant estimates and assumptions used in the assessment of the recoverable amount of non-current assets include long-term oil prices, discount rates, operating costs, future capital requirements, decommissioning costs, reserves and operating performance.

Information regarding the result of impairment test is disclosed in the Note 3 to the consolidated financial statements.

***Reserve estimates***

The estimation of oil and gas reserves has a significant impact on impairment test, depreciation, depletion and amortisation charges and decommissioning provisions. The Group involved internationally recognised independent reserves engineers to evaluate its oil and gas reserves.

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

We analysed the model that the Group used for impairment test. We compared condensate and gas prices used in the model to the available market forecasts.

To assess the discount rate used in the model we together with our internal valuation experts compared the discount rate and long-term growth rate to general market indicators and other available evidence.

We compared forecasted capital expenditures used in the model with the Group's approved budget.

We checked mathematical accuracy of impairment model and sensitivity analysis.

We also assessed the disclosure in the consolidated financial statements about the Group's impairment analysis.

We compared the assumptions used by the reserve engineers with the Group's approved budget and historical data. We analysed the underlying assumptions and compared estimates of reserves and resources provided by reserves engineers to the amounts included in the calculation of recoverable amount of non-current assets, depreciation, depletion and amortisation and decommissioning provisions.

We analysed disclosure of oil and gas reserve estimates in notes to the consolidated financial statements.

### ***Responsibilities of management and the Supervisory board for the consolidated financial statements***

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

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

The Supervisory board is responsible for overseeing the Group's financial reporting process.

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

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

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

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

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Baku, Azerbaijan

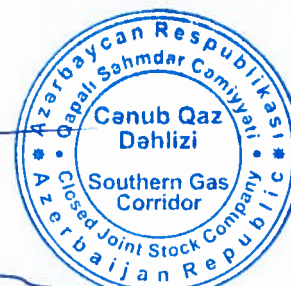
22 May 2020

**Consolidated statement of financial position****as at 31 December 2019***(Amounts presented are in thousands of US dollars)*

	Note	31 December 2019	31 December 2018
<b>Assets</b>			
<b>Non-current assets</b>			
Oil and gas properties	6	6,403,292	6,352,386
Construction in progress and development costs	7	2,466,549	2,295,663
Advance payments	8	2,554,194	2,567,116
Investment in associate	9	211,330	208,984
Loan receivables	10	652,500	588,739
Right-of-use asset	4	32,876	-
Deferred tax assets	20	3,542	3,394
Other non-current assets		2,313	15,539
<b>Total non-current assets</b>		<b>12,326,596</b>	<b>12,031,821</b>
<b>Current assets</b>			
Cash and cash equivalents	11	95,208	304,633
Deposits	11	167,849	479,971
Accounts receivable	12	43,768	32,317
Inventories		11,823	11,412
Other current assets		9,734	24,270
<b>Total current assets</b>		<b>328,382</b>	<b>852,603</b>
<b>Total assets</b>		<b>12,654,978</b>	<b>12,884,424</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	13	2,415,800	2,415,800
Additional paid-in capital	13	31,481	31,481
Other reserves	13	(54,982)	(34,181)
Cumulative translation differences		(16,093)	(11,436)
Accumulated losses		(538,469)	(329,173)
<b>Equity attributable to the Group's equity holders</b>		<b>1,837,737</b>	<b>2,072,491</b>
Non-controlling interests	13	1,371,119	1,343,104
<b>Total equity</b>		<b>3,208,856</b>	<b>3,415,595</b>
<b>Non-current liabilities</b>			
Long-term borrowings	14	8,268,105	8,213,471
Government grant	14	607,431	629,270
Decommissioning liabilities	15	157,704	116,436
Deferred tax liability	20	12,558	14,007
Lease liability	4	28,794	-
Other non-current liabilities		44,460	22,951
<b>Total non-current liabilities</b>		<b>9,119,052</b>	<b>8,996,135</b>
<b>Current liabilities</b>			
Trade and other payables	16	34,812	51,464
Short-term and current portion of long-term borrowings	14	192,507	27,958
Accrued liabilities	16	87,469	384,785
Income tax payable		6,775	8,487
Current portion of lease liability	4	5,507	-
<b>Total current liabilities</b>		<b>327,070</b>	<b>472,694</b>
<b>Total equity and liabilities</b>		<b>12,654,978</b>	<b>12,884,424</b>

**Signed and authorised on behalf of the Group**

Afgan Isayev, General Director

22 May 2020

Adil Pashayev, Finance Director



22 May 2020

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

**Consolidated statement of comprehensive income****for the year ended 31 December 2019***(Amounts presented are in thousands of US dollars)*

	<b>Note</b>	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
Revenue	17	452,610	253,568
Cost of sales	18	(247,275)	(132,833)
<b>Gross profit</b>		<b>205,335</b>	<b>120,735</b>
General and administrative expenses		(95,499)	(44,420)
Transportation tariffs		(5,406)	(4,030)
Other income	14	22,838	20,243
<b>Operating profit</b>		<b>127,268</b>	<b>92,528</b>
Interest income	19	44,642	34,817
Finance costs	4, 10, 14, 15	(439,916)	(350,241)
Share of result of associate	9	(8,859)	(3,308)
Foreign exchange loss, net		(2,815)	(3,428)
<b>Loss before income tax</b>		<b>(279,680)</b>	<b>(229,632)</b>
Income tax expenses	20	(1,071)	(5,665)
<b>Loss for the year</b>		<b>(280,751)</b>	<b>(235,297)</b>
<b>Other comprehensive loss</b>			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent period</i>			
Exchange differences on translation of foreign subsidiary		-	(25,704)
Exchange differences on translation of foreign associate	9	(4,657)	(6,384)
Net loss on cash flow hedge	13	(20,801)	-
<b>Other comprehensive loss for the year, net of tax</b>		<b>(25,458)</b>	<b>(32,088)</b>
<b>Total comprehensive loss for the year</b>		<b>(306,209)</b>	<b>(267,385)</b>
<b>Loss attributable to:</b>			
Equity holders of the Group		(209,296)	(193,209)
Non-controlling interests		(71,455)	(42,088)
		<b>(280,751)</b>	<b>(235,297)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the Group		(234,754)	(225,297)
Non-controlling interests		(71,455)	(42,088)
		<b>(306,209)</b>	<b>(267,385)</b>

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



**Consolidated statement of cash flows****for the year ended 31 December 2019***(Amounts presented are in thousands of US dollars)*

	Note	Year ended 31 December 2019	Year ended 31 December 2018
<b>Operating activities</b>			
Loss before income tax		(279,680)	(229,632)
<i>Non-cash adjustments to reconcile loss before tax to net cash flows</i>			
Finance costs	4, 10, 14, 15	439,916	350,241
Depreciation and depletion of property, plant and equipment and right-of-use assets	4, 6	237,272	120,404
Share of result of associate	9	8,859	3,308
Other income	14	(22,838)	(20,243)
Interest income	19	(44,642)	(34,817)
<i>Working capital adjustments</i>			
Accounts receivable		(11,451)	(19,865)
Inventories		(411)	(2,563)
Other assets		27,762	(15,011)
Deferred revenue		-	(2,054)
Trade and other payables		(2,454)	1,705
Accrued liabilities		1,565	(994)
<b>Cash generated from operations</b>		<b>353,898</b>	<b>150,479</b>
Income tax paid		(4,380)	(1,608)
Interest received		6,174	3,765
<b>Net cash flows from operating activities</b>		<b>355,692</b>	<b>152,636</b>
<b>Investing activities</b>			
Placement of deposits	11	(50,000)	(480,000)
Deposits withdrawal	11	370,000	-
Financing provided to third parties	10	(48,720)	(69,530)
Financing provided to associate	10	-	(176,808)
Loan repaid by associate	10	-	594,349
Advance payments for acquisition of shares		-	(139,449)
Investments in oil and gas properties		(75,197)	(5,140)
Additions to construction in progress and development costs		(518,601)	(913,150)
Investment in associate	9	(25,951)	(44,945)
<b>Net cash used in investing activities</b>		<b>(348,469)</b>	<b>(1,234,673)</b>
<b>Financing activities</b>			
Contribution in subsidiary by non-controlling shareholders	13	99,470	174,717
Proceeds from borrowings		99,470	1,179,930
Proceeds from disposal of non-controlling interests in a subsidiary	13	-	95,000
Repayment of borrowings		(159,147)	-
Payment of principal portion of lease liabilities	4	(5,439)	-
Interest paid		(251,002)	(209,762)
<b>Net cash flows from financing activities</b>		<b>(216,648)</b>	<b>1,239,885</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(209,425)</b>	<b>157,848</b>
Cash and cash equivalents at the beginning of the year	11	304,633	146,785
<b>Cash and cash equivalents at the end of the year</b>	11	<b>95,208</b>	<b>304,633</b>

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

**Consolidated statement of changes in equity  
for the year ended 31 December 2019**

(Amounts presented are in thousands of US dollars)

	Share capital	Additional paid-in capital	Other reserves	Cumulative translation differences	Accumulated losses	Total	Non-controlling interests	Total equity
<b>At 1 January 2018</b>	<b>2,415,800</b>	<b>31,481</b>	<b>(45,176)</b>	<b>20,652</b>	<b>(135,964)</b>	<b>2,286,763</b>	<b>1,031,116</b>	<b>3,317,909</b>
Loss for the year	-	-	-	-	(193,209)	(193,209)	(42,088)	(235,297)
Other comprehensive loss	-	-	-	(32,088)	-	(32,088)	-	(32,088)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(32,088)</b>	<b>(193,209)</b>	<b>(225,297)</b>	<b>(42,088)</b>	<b>(267,385)</b>
Sale of shares in subsidiary	-	-	10,995	-	-	10,995	179,359	190,354
Contribution by non-controlling shareholders (Note 13)	-	-	-	-	-	-	174,717	174,717
<b>At 31 December 2018</b>	<b>2,415,800</b>	<b>31,481</b>	<b>(34,181)</b>	<b>(11,436)</b>	<b>(329,173)</b>	<b>2,072,491</b>	<b>1,343,104</b>	<b>3,415,595</b>
Loss for the year	-	-	-	-	(209,296)	(209,296)	(71,455)	(280,751)
Other comprehensive loss	-	-	(20,801)	(4,657)	-	(25,458)	-	(25,458)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>(20,801)</b>	<b>(4,657)</b>	<b>(209,296)</b>	<b>(234,754)</b>	<b>(71,455)</b>	<b>(306,209)</b>
Contribution by non-controlling shareholders (Note 13)	-	-	-	-	-	-	99,470	99,470
<b>At 31 December 2019</b>	<b>2,415,800</b>	<b>31,481</b>	<b>(54,982)</b>	<b>(16,093)</b>	<b>(538,469)</b>	<b>1,837,737</b>	<b>1,371,119</b>	<b>3,208,856</b>

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

(Amounts presented are in thousands of US dollars, unless otherwise stated)

## 1. Corporate information

Southern Gas Corridor Closed Joint-Stock Company (the "Company" or "SGC CJSC") was established by the Presidential Decree No. 287 dated 25 February 2014. It was incorporated on 31 March 2014 in accordance with Azerbaijani legislation. 51% of the Company is owned by the Republic of Azerbaijan (the "State"), which is represented by the Ministry of Economy of the Republic of Azerbaijan ("ME"), whereas 49% belongs to the State Oil Company of Azerbaijan Republic ("SOCAR"). The Company is domiciled in the Republic of Azerbaijan. The registered address is located at 73 Neftchilar Avenue, Baku, AZ 1000, the Republic of Azerbaijan.

The Company was established for consolidating, managing and financing the State's interests in the full-field development of the Shah Deniz ("SD") gas-condensate field, the expansion of the South Caucasus Pipeline ("SCP"), implementation of Trans-Anatolian Natural Gas Pipeline ("TANAP") and Trans Adriatic Pipeline ("TAP") projects (together the "Projects"). The Company has the following subsidiaries:

Name	Country of incorporation	% equity interest	
		31 December 2019	31 December 2018
SGC Upstream LLC	Azerbaijan	100%	100%
SGC Midstream LLC	Azerbaijan	100%	100%
TANAP Doğalgaz İletim A.Ş. ("TANAP A.Ş.")	Turkey	51%	51%
AzTAP GmbH	Switzerland	100%	100%

The Company holds 20% share in Trans Adriatic Pipeline AG ("TAP AG"), through AzTAP GmbH.

## 2. Significant accounting policies

### Basis of preparation

These consolidated financial statements of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

### Going concern

The going concern basis assumes that the Group will continue its operations for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business. As at 31 December 2019 the Group had net current assets in the amount of US dollars 1,312. In addition, as at 31 December 2019, the Group had capital commitments (see Note 23) and long-term loan agreements (see Note 14) which would require significant cash outflows in foreseeable future.

The Group's management expects to receive sufficient amount of proceeds from hydrocarbons sales under current Shah Deniz Production Sharing Agreement and proceeds from transportation of natural gas through SCP, TANAP and TAP pipelines. The Group's management believes that the funds obtained from the above sources will be sufficient for meeting its financial commitments and the Group will be able to continue as a going concern for the foreseeable future.

### Basis for consolidation

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## 2. Significant accounting policies (continued)

### Basis for consolidation (continued)

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Group and to the non-controlling interests ("NCIs"), even if this results in the NCIs having a deficit balance.

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

### *Transactions with non-controlling interest ("NCI")*

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

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

### **Business combinations (continued)**

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

The Group applies pooling of interest method of accounting for business combinations with entities under the common control from the date when the combination took place.

The pooling of interest method includes the following:

- ▶ The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the combination. The only adjustments that are made are to align accounting policies;
- ▶ No "new" goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the net assets acquired is reflected within equity;
- ▶ Total comprehensive income reflects the results of the combining entities from the period when the combination took place.

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

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

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

### **Investment in associate**

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

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

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and NCIs in the subsidiaries of the associate.

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## 2. Significant accounting policies (continued)

### Investment in associate (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within "Share of profit of an associate" in the statement of comprehensive income.

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

### Investments in SD PSA, SCP and AGSC

According to the terms of Shah Deniz Production Sharing Agreement ("SD PSA"), the Group owns the portion of project's assets and is liable for its portion of project's liabilities. At the same time, the Group is entitled to its portion of expenses incurred and revenues earned by the whole project. Therefore, the Group accounts for its investment in SD PSA by recognising its interest portion of underlying assets, liabilities, expenses incurred and income earned by the project.

Participating interest of the Group in the SCP Project is treated by the Group as undivided interest related to the investment in South Caucasus Pipeline Company Limited ("SCPC") and accounted by recognising its portion of underlying assets, liabilities, expenses incurred and income earned by the project.

The Group holds an interest in the Azerbaijan Gas Supply Company Limited ("AGSC"), a company established together with the other Contractor Parties of the SD Project and the Ministry of Energy of the Republic of Azerbaijan. AGSC is special structured entity established for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of SD gas and operates on a no gain, no loss basis.

### Foreign currency translation

The consolidated financial statements are presented in US dollars ("USD") and all values are rounded to the nearest thousands, except when otherwise indicated.

The functional currency of the Company, subsidiaries and associate are the following:

SGC CJSC	USD
SGC Upstream LLC	USD
SGC Midstream LLC	USD
TANAP A.Ş.	USD
AzTAP GmbH	EUR
TAP AG	EUR

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

Monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency of that entity at the appropriate exchange rates prevailing at the reporting date.

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are recognised in profit or loss.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

## 2. Significant accounting policies (continued)

### Foreign currency translation (continued)

The results and financial position of the Group entities which functional currency differ from the presentation currency of the Group are translated into the presentation currency of the Group as follows:

- (i) Assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised as a separate component of equity – currency translation difference.

At 31 December 2019 the principal rate of exchange used for translating foreign currency balances was USD 1.1197 per EUR 1 (31 December 2018: USD 1.1452 per EUR 1).

### Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

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

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 Group classifies all other assets and liabilities as non-current.

### Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## 2. Significant accounting policies (continued)

### Financial instruments – key measurement terms (continued)

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

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

*The effective interest rate method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

### Financial assets

#### *Initial recognition and measurement*

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.



*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

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

### **Financial assets (continued)**

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset

### **Subsequent measurement**

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

- ▶ Financial assets at amortised cost (debt instruments);
- ▶ Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments);
- ▶ Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- ▶ Financial assets at FVPL.

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

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

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

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

The Group's financial assets at amortised cost includes trade receivables, loan receivables and other non-current financial assets.

### **Derecognition**

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

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

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

### **Financial assets (continued)**

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

The Group recognises an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

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

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### **Financial liabilities**

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

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

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

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

The measurement of financial liabilities depends on their classification as follows:

##### ***Loans and borrowings***

This category is most relevant to the Group. After initial recognition, interest bearing loans and borrowings which have a fixed contractual repayment schedule are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation is included in finance cost in the consolidated statement of comprehensive income.

Borrowings with no pre-defined contractual repayment schedules are measured in accordance with expected repayment schedule.

##### ***Trade and other payables***

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## 2. Significant accounting policies (continued)

### Financial liabilities (continued)

#### *Derecognition*

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

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

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

#### **Derivative financial instruments and hedge accounting**

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

The Group's associate uses derivative financial instruments, such as interest rate swap contracts, to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- ▶ Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- ▶ Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group's associate formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group's associate will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- ▶ There is 'an economic relationship' between the hedged item and the hedging instrument;
- ▶ The effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
- ▶ The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group's associate actually uses to hedge that quantity of hedged item.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

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

### **Derivative financial instruments and hedge accounting (continued)**

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

#### *Fair value hedges*

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

### **Oil and gas properties**

Oil and gas properties are stated at cost, less accumulated depreciation and provision for impairment, where required. Such cost includes the cost of replacing part of the oil and gas properties and borrowing costs for long-term construction projects if the recognition criteria are met.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of oil and gas properties items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of oil and gas properties. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there are indicators that impairment loss may no longer exist or may have decreased.

Gains and losses on disposals are determined by comparing proceeds from disposal with the carrying amount and are recognised in profit or loss for the year.

### **Construction in progress**

All costs directly or indirectly attributable to the projects of construction and expansion the capacity of the pipeline systems are capitalised as a construction in progress. The construction in progress is stated at a cost and not depreciated but tested for impairment if indicators exist. The construction in progress is transferred to the property, plant and equipment upon completion.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

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

### **Depreciation, depletion and amortisation**

Depreciation, depletion and amortisation of capitalised costs of oil and gas properties is calculated using the units-of-production method based on proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

The cost of an off-shore production platform, terminal and other development costs incurred in connection with a planned group of development wells is reduced for the portion of development costs related to wells which have not been drilled yet in determining the asset base subject to the unit-of-production amortisation rate until the additional development wells are drilled. Similarly, in computing the depletion rate, those proved reserves that will be produced only after significant additional development costs are incurred are excluded from proved developed reserves.

Depreciation, depletion and amortisation of capitalised costs of the pipeline systems are calculated using the straight-line method for the period of useful life of pipelines. The estimated useful life of the SCP pipeline is thirty years from 25 November 2006, the date when the pipeline was officially ready and put in use. The estimated useful life of the TANAP pipeline system is expected to last until the year 2062.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

### **Oil and natural gas development expenditure**

The Group follows the successful efforts method of accounting for oil and natural gas development activities. Costs to acquire mineral interests, to determine the technical feasibility, assess commercial viability of an identified resource and to drill and equip exploratory wells that find proved reserves are capitalised within exploration and evaluation assets. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. No amortisation is charged during the exploration and evaluation phase.

### **Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### *Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. Refer to Note 4 for effect of adoption of IFRS 16.

#### *Group as a lessor*

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## 2. Significant accounting policies (continued)

### Advance payments

Advance payments are recognised and carried at the original amount of payment less provision for any amount at risk of non-performance by the counterparty. Advance payments made for non-current assets as well as payments which will be settled during more than one-year period are non-current advance payments.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Impairment of oil and gas properties, construction in progress, development costs and other non-financial assets

The Group assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of producing crude oil is accounted on weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the production cost, the appropriate proportion of depletion and depreciation charges and overheads. Net realisable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to completion and disposal.

### Decommissioning liabilities

Under the provisions of the SD PSA, the Contractor Parties to the SD PSA are obligated to finance the ultimate abandonment of oil and gas production properties employed in petroleum operations within the contract area. The maximum amounts of abandonment funds cannot exceed 10% of the capital costs in accordance with the SD PSA. The Group estimates its share of total decommissioning liabilities based on SD PSA provisions by applying the 10% limit to all capital costs incurred in petroleum operations in the contract area as at the year-end. The present value of the decommissioning liabilities is recorded by the Group as a liability at the time the assets are installed or placed in service. The amount of liability equals the present value of the future decommissioning liabilities discounted at pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability, which equals 4.76% at 31 December 2019 (31 December 2018: 6.26%). A corresponding tangible fixed asset of an amount equivalent to the liability is also created and included in the cost of oil and gas production properties. This amount is subsequently depreciated as part of the oil and gas production properties and charged against income using the unit-of-production method based on proved reserves. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas production properties. The unwinding of the discount on the decommissioning provision is included as a finance cost.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

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

### **Decommissioning liabilities (continued)**

According to the Host Government Agreement ("HGA") signed with the Georgian and Azerbaijan Governments, no later than 30 days after the termination of the HGA, SCPC must submit a decommissioning plan to these Governments addressing its obligations to retire the pipeline. The amount of asset retirement obligation is capitalised by shareholders of SCPC. The Group recognises underlying asset retirement obligation in respect of its participating interest in SCPC.

In accordance with HGA signed with the Government of Turkey, the Group shall comply with all its decommissioning obligations following the expiry of HGA (2062). The Group started construction works in March 2015. At the date of the consolidated financial statements, the Group had performed works related to backfilling activities, placement of compressors and SCADAs, which require decommissioning works. The Group recognised decommissioning liability, which represents the management's best estimate of the expenditures required to settle the present obligation at the reporting date.

### **Revenue recognition**

The Group's revenue is generated from sales of natural gas and crude oil produced in Azerbaijan and transportation of natural gas to Turkey. Revenue is recognised when control of the services or goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services or goods.

#### *Sale of natural gas and crude oil*

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, the Group recognised revenue from sale of natural gas and crude oil at the point in time when control of the asset is transferred to the customer.

#### *Transportation of natural gas*

The Group's contracts with customers for transportation of natural gas include deliver the natural gas to the exit points under respective natural gas transportation agreements. The Group recognises revenue only when it satisfies an identified performance obligation by transferring a promised service to a customer.

#### *Accounting for over/underlift crude oil*

The Group operates in SD PSA arrangement for production of oil and gas products. The Group recognise revenue based on actually sold volume of crude oil with no adjustments made in respect of production imbalances resulted in any variance between actual share of production volume sold to date and the share of production which the party has been entitled to sell to date. The cost of sales is adjusted for production imbalances in order to align with the volumes actually sold. The Group applies cost method for measurement of underlift asset and overlift liability at initial recognition.

### **Government grants**

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant related to an asset, it is recognised as income over the expected useful life of the related asset on a basis consistent with the depreciation policy.

The benefit of a bond issued to the government (or to state-owned entity) at a below market rate of interest is treated as a government grant. Such benefit is measured as the difference between the initial fair value of the issued bond and the proceeds received.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

## 2. Significant accounting policies (continued)

### Income taxes

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

The Group is liable for financing of its 6.67% share in the tax liabilities of SCPC, namely Azerbaijani income tax, Georgian income tax and Georgian minimum tax liabilities.

According to the provisions of SD PSA, contractor parties are liable for profit taxes. However, according to the SD PSA, respective government entity of the Republic of Azerbaijan is liable for payment of profit taxes of each contractor party from the proceeds from sales of crude oil and natural gas. Accordingly, the Group recognises profit taxes and related revenue in the consolidated statement of comprehensive income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- ▶ When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of property, plant and equipment.

#### *Operating tax of TANAP A.Ş.*

As per the HGA between the Republic of Turkey and TANAP A.Ş., it was determined that the corporate income tax of TANAP A.Ş. will only be based on the amount of natural gas transmitted from the pipeline after the pipeline is put in use. According to tax ruling received on 7 April 2017 TANAP A.Ş. is not subject to corporate tax. TANAP A.Ş. is required to pay tax of US dollars 5.95 per thousand cubic metrics of gas measured at entry point.



*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

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

### **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

### **Employee benefits**

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

### **Transactions with related parties**

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

### **Contingencies**

Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

## **3. Significant accounting judgments, estimates and assumptions**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of commitments, guarantees and contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

On an on-going basis, management evaluates their estimates, including those related to revenue recognition and contingencies. Management bases their estimates on various market-specific assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making assumptions about the carrying values of assets that are not readily apparent from other sources. Actual results may differ significantly from these estimates using different assumptions or conditions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

### **3. Significant accounting judgments, estimates and assumptions (continued)**

#### **Reserve estimates**

Estimates of recoverable quantities of proven and probable reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quantity of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period; changes in reported reserves can impact provision of decommissioning liabilities due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charges to the consolidated statement of comprehensive income.

Natural gas and condensate reserves depend on price fluctuations as a result of change in production entitlement split between the State and contractor parties. Natural gas prices are calculated based on the long-term sales contracts which are either fixed or variable depending on crude oil prices and other inputs.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

#### **ECL measurement**

The Group uses a provision matrix to calculate ECLs for financial assets. The provision rates are based on credit rating of financial institutions. The provision matrix is initially based on the Group's historical observed default rates. The Group 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 sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

#### **Leases – estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (for example, when the Group does not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the Group's functional currency).

#### **Decommissioning liabilities**

As discussed in Note 2, under the terms of the SD PSA the Group will have to make contributions to the abandonment fund when seventy percent (70%) of petroleum reserves of the SD field are recovered. Decommissioning liabilities are stated in the amount of expected contributions related to the currently employed assets discounted at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. This valuation requires the Group to make estimates about timing of expected future cash flows and adjustment to the discount rate, and hence they are subject to uncertainty. The estimation of the decommissioning liabilities is based on the assumption that contributions to the abandonment fund will start in 2027 (Note 15). If the estimated discount rate used in the calculation had been 1% higher/lower than management's estimate, the carrying amount of the provision would have been US dollar 14,646 lower / US dollars 12,803 higher, respectively.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

### **3. Significant accounting judgments, estimates and assumptions (continued)**

#### **Recoverability of oil and gas assets**

The Group assesses each CGU every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, operating costs, future capital requirements, decommissioning costs, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

The recoverable amount used in performing the impairment test described below is value-in-use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management. As at 31 December 2019 the Group performed impairment test and did not identify impairment loss.

#### **Key assumptions used in value-in-use calculations**

The calculation of value-in-use for oil fields is most sensitive to the following assumptions:

##### *Identification of CGU*

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets of group of assets. The management assesses that SCP, TANAP and TAP projects are constructed with the ultimate goal of the delivering SD field natural gas to the Georgian, Turkish and European markets. Therefore, all these projects have been considered as one CGU and impairment test is performed on the level of the whole Group.

##### *Capital expenditures*

Capital expenditures necessary to maintain estimated production volumes are based on long-term development plans for particular field. If the forecasted capital expenditures used in the calculation had been 10 per cent higher than management's estimate this would not result in any impairment loss.

##### *Crude oil price*

Commodity prices used in the forecasts are publicly available. If the forecasted prices used in the calculation had been five dollars (US dollars 5.0) lower than management's estimate, this would not result in any impairment loss.

##### *Discount rate*

The post-tax discount rate applied to the cash flow projections of CGU was 8.69%. The discount rate calculation is based on the specific circumstances of the Group and derived from its incremental borrowing rate adjusted to the specific risks associated with the asset's estimated cash flows. If the estimated discount rate used in the calculation had been 1% higher than management's estimate, this would not result in impairment loss.

#### **Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

#### 4. New and amended standards and interpretations

##### 4.1 Change in the Group's accounting policies

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

###### *IFRS 16 Leases*

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

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

###### Transition to IFRS 16

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The Group applies its elected transition approach consistently to all leases in which it is a lessee.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

There are no lease commitments disclosed for lease agreements classified as short-term and low-value asset leases as they are cancelable.

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

<b>Assets</b>	
Right-of-use assets	39,740
<b>Total assets</b>	<b>39,740</b>
<b>Liabilities</b>	
Lease liabilities	39,740
<b>Total liabilities</b>	<b>39,740</b>

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

<b>Operating lease commitment at 31 December 2018</b>	<b>48,721</b>
Weighted average incremental borrowing rate (%)	
- USD	6.50%
- EUR	5.23%
<b>Discounted using the incremental borrowing rate at 1 January 2019</b>	<b>39,740</b>
<b>Lease liabilities recognised at 1 January 2019</b>	<b>39,740</b>



*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

#### **4. New and amended standards and interpretations (continued)**

##### **4.1 Change in the Group's accounting policies (continued)**

If the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term the recognised right-of-use asset is depreciated over estimated useful lives of the respective underlying asset.

Right-of-use assets are subject to impairment. Refer to Note 2 for impairment of non-financial assets.

##### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be payable by the lessee under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

##### Incremental borrowing rate (IBR)

The Group uses incremental borrowing rate as the discount rate as interest rate implicit in the lease is not readily determinable. In determining the incremental borrowing rate, the lessee considers borrowings with a similar term and security to the right-of-use asset, not the underlying asset. Lessee's incremental borrowing rate reflects the rate of interest that a lessee would have to pay, among others, in a similar economic environment. If the contract requires lease payments to be made in a currency other than the functional currency of the lessee, the incremental borrowing rate should be determined based on a borrowing of a similar amount in that foreign currency.

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

The Group applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Group also assesses the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased and treats the underlying assets as low-value when a new one of USD 5,000 or less. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

#### 4. New and amended standards and interpretations (continued)

##### 4.1 Change in the Group's accounting policies (continued)

###### c) Amounts recognised in the statement of financial position and profit or loss

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

	Right of use assets	Lease liabilities
<b>At 1 January 2019</b>	<b>39,740</b>	<b>39,740</b>
Interest expense	–	2,400
Payment	–	(7,839)
Depreciation charge for the year	(6,864)	–
<b>At 31 December 2019</b>	<b>32,876</b>	<b>34,301</b>

The Group presents its lease liabilities as non-current and current which were as follows at reporting date and at the date of adoption IFRS 16. Current portion of lease liabilities represent value of future leases payments payable in one-year period after reporting date.

Balances of non-current and current lease liabilities were as follows:

	31 December 2019	1 January 2019
Non-current lease liabilities	28,794	34,301
Current lease liabilities	5,507	5,439
<b>Total liabilities from leasing activities</b>	<b>34,301</b>	<b>39,740</b>

##### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

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

The Interpretation specifically addresses the following:

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

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

#### **4. New and amended standards and interpretations (continued)**

##### **4.1 Change in the Group's accounting policies (continued)**

###### *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

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

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

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

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

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

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

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*. These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

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

Annual improvements are part of the Board's process for maintaining IFRS Standards and contain Interpretations that are minor or narrow in scope. The amendments made during the 2015-2017 cycle are:

###### *IFRS 3 Business Combinations – Previously Held Interests in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.



*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

#### **4. New and amended standards and interpretations (continued)**

##### **4.1 Change in the Group's accounting policies (continued)**

###### *IFRS 11 Joint Arrangements – previously held Interests in a joint operation*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

###### *IAS 12 Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the amendment does not have any impact on its consolidated financial statements.

###### *IAS 23 Borrowing Costs – Borrowing Costs Eligible for Capitalisation*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the amendment does not have any impact on its consolidated financial statements.

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

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

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

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

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

(Amounts presented are in thousands of US dollars, unless otherwise stated)

#### 4. New and amended standards and interpretations (continued)

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

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

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

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

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

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted. The amendments address the conflict between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The amendments must be applied prospectively. Early application is permitted and must be disclosed. The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgmental and entities need to consider the definition carefully in such transactions.

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

In September 2019, the IASB issued amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.

###### The amendments to IFRS 9

The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Application of the reliefs is mandatory. The first three reliefs provide for:

- ▶ The assessment of whether a forecast transaction (or component thereof) is highly probable;
- ▶ Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss;
- ▶ The assessment of the economic relationship between the hedged item and the hedging instrument.

Fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship. Where hedging instruments and hedged items may be added to or removed from an open portfolio in a continuous hedging strategy, the separately identifiable requirement need only be met when hedged items are initially designated within the hedging relationship. To the extent that a hedging instrument is altered so that its cash flows are based on an RFR, but the hedged item is still based on IBOR (or vice versa), there is no relief from measuring and recording any ineffectiveness that arises due to differences in their changes in fair value.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

#### **4. New and amended standards and interpretations (continued)**

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

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed.

Since the Group's associate applies hedge accounting where hedging instruments are IBOR-based derivatives, the Group currently analyses effect of this amendment on its consolidated financial statements.

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

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

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

##### Right to defer settlement

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

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

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

##### Management expectations

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

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

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

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

#### **4. New and amended standards and interpretations (continued)**

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

###### *The Conceptual Framework for Financial Reporting*

The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- ▶ Chapter 1 – The objective of financial reporting;
- ▶ Chapter 2 – Qualitative characteristics of useful financial information;
- ▶ Chapter 3 – Financial statements and the reporting entity;
- ▶ Chapter 4 – The elements of financial statements;
- ▶ Chapter 5 – Recognition and derecognition;
- ▶ Chapter 6 – Measurement;
- ▶ Chapter 7 – Presentation and disclosure;
- ▶ Chapter 8 – Concepts of capital and capital maintenance.

The Conceptual Framework is accompanied by a Basis for Conclusions. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 and for those applying IAS 8.

For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Group did not expect significant effect of the updated Conceptual Framework on its consolidated financial statements.

#### **5. Segment information**

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

The Group is organised into business units based on their products and services and has two reportable segments as follows:

- ▶ Oil and gas – representing extraction of natural gas and gas condensate;
- ▶ Distribution – representing transportation of natural gas and gas condensate.

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

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***5. Segment information (continued)****Information about reportable segment profit or loss, assets and liabilities**

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

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
<b>Revenues</b>					
External customers	235,995	216,615	-	-	452,610
Inter-segment	-	39,128	-	(39,128)	-
<b>Total revenue</b>	<b>235,995</b>	<b>255,743</b>	<b>-</b>	<b>(39,128)</b>	<b>452,610</b>
Depreciation and depletion of PPE	(112,064)	(118,344)	-	-	(230,408)
Other costs	(16,867)	(1,354)	-	1,354	(16,867)
Transportation tariffs	(43,180)	-	-	37,774	(5,406)
General and administrative expenses	(2,679)	(79,180)	(13,640)	-	(95,499)
Other income	2,115	51	20,672	-	22,838
Interest income	-	822	336,930	(293,110)	44,642
Finance costs	(129,585)	(223,338)	(328,276)	241,283	(439,916)
Share of result of associates	-	(8,859)	-	-	(8,859)
Foreign exchange loss, net	121	(8,536)	2,529	3,071	(2,815)
Income tax expense	-	(1,071)	-	-	(1,071)
<b>Net loss for the year</b>	<b>(66,144)</b>	<b>(184,066)</b>	<b>18,215</b>	<b>(48,756)</b>	<b>(280,751)</b>

(\*) These numbers include unallocated transactions managed and recognised at the group level.

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

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Investment in associates	-	211,330	-	-	211,330
Other reportable segment assets	3,561,207	7,784,592	8,133,612	(7,035,763)	12,443,648
<b>Total reportable segment assets</b>	<b>3,561,207</b>	<b>7,995,922</b>	<b>8,133,612</b>	<b>(7,035,763)</b>	<b>12,654,978</b>
Other reportable segment liabilities	(3,671,236)	(5,262,372)	(7,224,263)	6,711,749	(9,446,122)
<b>Total reportable segment liabilities</b>	<b>(3,671,236)</b>	<b>(5,262,372)</b>	<b>(7,224,263)</b>	<b>6,711,749</b>	<b>(9,446,122)</b>
<b>Capital expenditure (***)</b>					
Additions	91,356	412,671	-	(51,827)	452,200
Additions – investment in associate	-	25,951	-	-	25,951
Advance payments related to construction works	100	(13,022)	-	-	(12,922)
<b>Total capital expenditures</b>	<b>91,456</b>	<b>425,600</b>	<b>-</b>	<b>(51,827)</b>	<b>465,229</b>

(\*) These numbers include unallocated assets and liabilities managed and recognised at the group level.

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

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***5. Segment information (continued)****Information about reportable segment profit or loss, assets and liabilities (continued)**

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

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
<b>Revenues</b>					
External customers	181,958	71,610	-	-	253,568
Inter-segment	-	29,427	-	(29,427)	-
<b>Total revenue</b>	<b>181,958</b>	<b>101,037</b>	<b>-</b>	<b>(29,427)</b>	<b>253,568</b>
Depreciation and depletion of PPE	(63,379)	(57,025)	-	-	(120,404)
Other costs	(12,429)	(1,206)	-	1,206	(12,429)
Transportation tariffs	(32,251)	-	-	28,221	(4,030)
General and administrative expenses	(6,073)	(24,445)	(13,902)	-	(44,420)
Other income	1,006	2,873	16,364	-	20,243
Interest income	-	9,046	284,633	(258,862)	34,817
Finance costs	(116,759)	(125,150)	(291,486)	183,154	(350,241)
Share of result of associates	-	(3,308)	-	-	(3,308)
Foreign exchange loss, net	(5)	(215)	(9,023)	5,815	(3,428)
Income tax expense	-	(5,665)	-	-	(5,665)
<b>Net (loss)/profit for the year</b>	<b>(47,932)</b>	<b>(104,058)</b>	<b>(13,414)</b>	<b>(69,893)</b>	<b>(235,297)</b>

(\*) These numbers include unallocated transactions managed and recognised at the group level.

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

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Investment in associates	-	208,984	-	-	208,984
Other reportable segment assets	3,593,184	7,621,629	8,249,479	(6,788,852)	12,675,440
<b>Total reportable segment assets</b>	<b>3,593,184</b>	<b>7,830,613</b>	<b>8,249,479</b>	<b>(6,788,852)</b>	<b>12,884,424</b>
Other reportable segment liabilities	(3,637,067)	(5,117,028)	(7,254,816)	6,540,082	(9,468,829)
<b>Total reportable segment liabilities</b>	<b>(3,637,067)</b>	<b>(5,117,028)</b>	<b>(7,254,816)</b>	<b>6,540,082</b>	<b>(9,468,829)</b>
<b>Capital expenditure (***)</b>					
Additions	131,397	1,132,161	-	(75,708)	1,187,850
Additions – investment in associate	-	44,945	-	-	44,945
Advance payments for acquisition of shares	35,539	103,910	-	-	139,449
Advance payments related to construction works	(351)	(62,009)	-	-	(62,360)
<b>Total capital expenditures</b>	<b>166,585</b>	<b>1,219,007</b>	<b>-</b>	<b>(75,708)</b>	<b>1,309,884</b>

(\*) These numbers include unallocated assets and liabilities managed and recognised at the group level.

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

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

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***5. Segment information (continued)****Geographical information**

Revenue is generated from sales of natural gas and crude oil produced in Azerbaijan and transportation of natural gas to Turkey.

Non-current assets other than financial instruments and deferred tax assets for each individual country for which they are material are reported separately as follows:

	<b>2019</b>	<b>2018</b>
Azerbaijan	4,575,687	4,530,051
Turkey	6,408,149	6,208,259
Georgia	475,302	478,895
Switzerland	211,330	208,984
<b>Total</b>	<b>11,670,468</b>	<b>11,426,189</b>

The analysis is based on location of assets.

**6. Oil and gas properties**

Movements in the carrying amount of oil and gas properties consisted of the following:

	<b>Oil and gas production properties</b>	<b>Pipeline assets</b>	<b>Decommis- sioning costs</b>	<b>Total</b>
<b>Cost</b>				
<b>At 31 December 2017</b>	<b>502,570</b>	<b>76,911</b>	<b>19,630</b>	<b>599,111</b>
Additions	4,240	900	6,811	11,951
Transfers from development costs and construction in progress (Note 7)	1,474,996	4,515,607	70,325	<b>6,060,928</b>
<b>At 31 December 2018</b>	<b>1,981,806</b>	<b>4,593,418</b>	<b>96,766</b>	<b>6,671,990</b>
Additions	73,433	1,764	18,059	<b>93,256</b>
Transfers from development costs and construction in progress (Note 7)	-	188,058	-	<b>188,058</b>
<b>At 31 December 2019</b>	<b>2,055,239</b>	<b>4,783,240</b>	<b>114,825</b>	<b>6,953,304</b>
<b>Accumulated depletion and depreciation</b>				
<b>At 31 December 2017</b>	<b>(180,768)</b>	<b>(11,647)</b>	<b>(6,785)</b>	<b>(199,200)</b>
Charge for the year	(61,829)	(56,696)	(1,879)	<b>(120,404)</b>
<b>At 31 December 2018</b>	<b>(242,597)</b>	<b>(68,343)</b>	<b>(8,664)</b>	<b>(319,604)</b>
Charge for the year	(103,468)	(117,969)	(8,971)	<b>(230,408)</b>
<b>At 31 December 2019</b>	<b>(346,065)</b>	<b>(186,312)</b>	<b>(17,635)</b>	<b>(550,012)</b>
<b>Net book value</b>				
<b>At 31 December 2019</b>	<b>1,709,174</b>	<b>4,596,928</b>	<b>97,190</b>	<b>6,403,292</b>
<b>At 31 December 2018</b>	<b>1,739,209</b>	<b>4,525,075</b>	<b>88,102</b>	<b>6,352,386</b>

**Oil and gas production properties**

Oil and gas production properties are represented by the Group's 6.67% share in oil and gas production properties of SD project.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***6. Oil and gas properties (continued)****Pipeline assets**

The pipeline cost represents the Group's 6.67% share in cost of construction of SCP pipeline and cost of construction of TANAP pipeline.

Construction of TANAP pipeline consist of two phases: Phase 0 and Phase 1. The Phase 0, construction of the pipeline section from the Georgia/Turkey border to Eskişehir (Turkey), was completed by June 2018, following which the commercial deliveries of gas through TANAP pipeline commenced on 30 June 2018 and respective accumulated costs amounting to US dollars 4,375,062 were transferred from construction in progress to pipeline assets (Note 7). As part of the Construction of Phase 1 of TANAP system, pipelaying activities (including welding, trenching, lowering into trenches) from Eskişehir to Turkey/Greece border, were completed as of 31 December 2019 and commercial deliveries of gas through TANAP Phase 1 pipeline are anticipated to be commenced in the second half of 2020. As discussed in Note 23, the remaining budget for finalisation of TANAP system is estimated in the amount of US dollars 237,863 (31 December 2018: US dollars 751,280).

Construction of three elements of SCP expansion (Georgian loop, Compressor station and Pressure reduction and meeting station) was completed by 30 June 2018. Finalisation of construction in these three SCP Expansion elements was followed by the commencement of commercial gas delivery to Turkey. At the commencement date of operation in SCP Expansion, construction in progress amounting to US dollars 140,545 was transferred to pipeline assets. Construction of remaining two elements of SCP expansion (Azerbaijan loop and Gas Compressor station 2) was completed on 31 March 2019 and upon finalisation of construction of remaining two elements of SCP expansion, construction in progress amounting to US dollars 188,058 was transferred to pipeline assets (Note 7).

**Decommissioning costs**

The capitalised decommissioning costs are represented by the Group's 6.67% share in costs related to decommissioning of assets employed for the purposes of SD and SCP projects and costs related to decommissioning of assets of TANAP project (Note 15).

**7. Construction in progress and development costs**

Movements in the carrying amount of oil and gas properties consisted of the following:

	Development costs	Construction in progress	Decommis- sioning costs	Total
<b>At 31 December 2017</b>	<b>1,354,444</b>	<b>5,747,555</b>	<b>78,693</b>	<b>7,180,692</b>
Additions	120,552	1,059,753	(4,406)	1,175,899
Transfer to oil and gas properties (Note 6)	(1,474,996)	(4,515,607)	(70,325)	(6,060,928)
<b>At 31 December 2018</b>	<b>-</b>	<b>2,291,701</b>	<b>3,962</b>	<b>2,295,663</b>
Additions	-	343,922	15,022	358,944
Transfer to oil and gas properties (Note 6)	-	(188,058)	-	(188,058)
<b>At 31 December 2019</b>	<b>-</b>	<b>2,447,565</b>	<b>18,984</b>	<b>2,466,549</b>
<b>Net book value</b>				
<b>At 31 December 2019</b>	<b>-</b>	<b>2,447,565</b>	<b>18,984</b>	<b>2,466,549</b>
<b>At 31 December 2018</b>	<b>-</b>	<b>2,291,701</b>	<b>3,962</b>	<b>2,295,663</b>



(Amounts presented are in thousands of US dollars, unless otherwise stated)

## 7. Construction in progress and development costs (continued)

### Construction in progress

As at 31 December 2019 this amount includes cost directly related to the construction of TANAP Phase 1 in the amount of US dollars 2,447,565 (31 December 2018: US dollars 2,104,112). The amount related to construction of TANAP includes costs for project management services, pipeline cost, land acquisition costs, personnel expenses and other costs directly attributable to the construction of pipeline.

The construction of remaining two elements SCP Expansion (Azerbaijani loop and Gas Compressor Station 2) was completed on 31 March 2019. Therefore, the construction in progress in the amount of US dollars 188,058 was transferred to oil and gas properties as at 31 December 2019.

### Capitalised borrowing cost

During the year ended 31 December 2019 the Group capitalised borrowing cost in the amount of US dollars 126,785 as part of construction in progress and development costs (2018: US dollars 173,870).

## 8. Advance payments

Advance payments consisted of the following at 31 December:

	2019	2018
Advance payments for acquisition of shares	2,536,956	2,536,956
Other payments related to construction works	17,238	30,160
	<b>2,554,194</b>	<b>2,567,116</b>

### Advance payments for acquisition of shares

Advance payments for acquisition of shares represents advances paid in the amount of US dollars 1,855 million (31 December 2018: US dollars 1,855 million) to Azerbaijan (Shah Deniz) Limited ("AzSD") and US dollars 682 million (31 December 2018: US dollars 682 million) to Azerbaijan (South Caucasus Pipeline) Limited ("AzSCP") for acquisition of their 10% interests in the SD PSA and SCP projects, respectively, and treated as non-financial assets. Refer to Note 24 for further details.

## 9. Investment in associate

At 31 December 2019 the Group held twenty percent (20%) interest in TAP AG. TAP AG is responsible for the development and operation of the gas transportation infrastructure from the Greece/Turkey border to Southern Italy in order to deliver SD natural gas to European countries. The Group exercises significant influence over the entity by participating in its financial and operating decisions. The Group acquired investment in TAP AG through acquisition of 100% shares of AzTAP GmbH in 2014.

The table below summarises the movements in the carrying amount of the Group's investment in TAP AG:

	2019	2018
<b>Opening carrying amount</b>	<b>208,984</b>	<b>175,561</b>
Additions to investment in associate	25,951	44,945
Conversion of loan into investment on associate (Note 10)	11,020	-
Share of after-tax results of associate	(8,859)	(3,308)
Share of other comprehensive loss results of associate	(20,801)	-
Other	-	(1,830)
Exchange differences	(4,965)	(6,384)
<b>Closing carrying amount</b>	<b>211,330</b>	<b>208,984</b>

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***9. Investment in associate (continued)**

The following table illustrates summarised financial information of the Group's investment in TAP AG at 31 December:

	<b>2019</b>	<b>2018</b>
Current assets	88,334	123,281
Non-current assets	4,590,371	4,131,562
Current liabilities	(234,915)	(297,792)
Non-current liabilities	(3,474,045)	(2,999,061)
<b>Net assets</b>	<b>969,745</b>	<b>957,990</b>
<b>Group's interest in net assets</b>	<b>193,949</b>	<b>191,598</b>
Goodwill recognised upon acquisition	18,872	18,872
Exchange differences on translation of goodwill	(1,491)	(1,486)
<b>Carrying value</b>	<b>211,330</b>	<b>208,984</b>

Share of associate's results for the period ended 31 December:

	<b>2019</b>	<b>2018</b>
Revenue	-	-
Operating expenses	(46,612)	(33,266)
Other income	3,083	15,269
<b>Loss before tax</b>	<b>(43,529)</b>	<b>(17,997)</b>
Income tax (loss)/benefit	(768)	1,457
<b>Net loss for the year</b>	<b>(44,297)</b>	<b>(16,540)</b>
<b>Group's share of net loss</b>	<b>(8,859)</b>	<b>(3,308)</b>
<b>Other comprehensive loss for the year, net of tax</b>	<b>(104,005)</b>	<b>-</b>
<b>Group's share of total comprehensive loss (Note 13)</b>	<b>(20,801)</b>	<b>-</b>

**10. Loan receivables**

According to the TAP AG board of directors' resolution, on 18 February 2019 TAP AG converted outstanding shareholder loans into charter capital. Interest income earned during the period ended 18 February 2019 was US dollars 21 (2018: US dollars 9,473). As a result, the Group's loan receivables from TAP AG in the amount of US dollars 11,020 was converted into investment in associate.

As at 31 December 2019 the Group had loan receivables from BOTAS in the amount of US dollars 258,919 (31 December 2018: US dollars 234,686). Receivables from BOTAS represent deferred consideration in the amount of US dollars 33,264 (31 December 2018: US dollars 32,139) and loan receivable in the amount of US dollars 225,655 (31 December 2018: US dollars 202,547). On 13 April 2015 the Group sold its 30% shares in TANAP A.Ş. to BOTAS for cash consideration of US dollars 168,226 and deferred consideration of US dollars 33,645. The deferred consideration does not bear interest and is expected to be repaid during 2020-2021. At initial recognition fair value of the deferred consideration was calculated as the present value using the market borrowing rate for similar financial instruments (3.5%) in the amount of US dollars 28,006. Income earned in respect of the deferred consideration from BOTAS during the year ended 31 December 2019 was US dollars 1,125 (2018: US dollars 1,087) and was recognised within interest income.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

#### 10. Loan receivables (continued)

As discussed in Note 24, according to the Funding Agreement, following the sale of 30% shares of TANAP A.Ş., during the year ended 31 December 2019 the Group financed cash call requirements of BOTAS relating to 5% share in TANAP A.Ş. in the amount of US dollars 20,300 (2018: US dollars 37,225). The loan does not bear interest and is expected to be repaid in 2020-2023. At initial recognition of each debt obligation in respect of financing of cash call requirements of BOTAS, the present value was calculated using 5.62% market borrowing rate for similar financial instruments (2018: 5.72%) in the amount of US dollars 14,751 (2018: US dollars 26,517) and the difference between the fair value and carrying amount of loan in the amount of US dollars 5,549 (2018: US dollars 10,708) was recognised in profit and loss. Interest income earned in respect of the loan receivable from BOTAS during the year ended 31 December 2019 was US dollars 9,502 (2018: US dollars 8,270). As at 31 December 2019 the Group recognised ECL on loan receivable from BOTAS in the amount of US dollars 2,594 (31 December 2018: US dollars 1,449).

On 9 February 2018 the Company entered into sale and purchase agreement ("TANAP SPA") with SOCAR Turkey Enerji A.Ş. ("STEAS") to sell 7% shares in TANAP A.Ş. Pursuant to the TANAP SPA, the Company sold 7% of its loan receivables from as well as 7% equity in TANAP A.Ş to STEAS. Fair value of total consideration amounted to US dollars 392,633 out of which US dollars 95,000 was paid on 22 February 2018. Remaining consideration in the amount of US dollars 297,633 was recognised as an interest-bearing long-term loan receivables at the rate of 5.74% per annum and expected to be repaid during 2020-2023. Income earned in respect of the deferred consideration from STEAS during the year ended 31 December 2019 was US dollars 18,651 (2018: US dollars 14,759) and was recognised within interest income.

As discussed in Note 24, according to TANAP SPA, following the sale of 7% shares in TANAP A.Ş., the Company financed cash call requirements of STEAS relating to 7% interest in TANAP A.Ş. in the amount of US dollars 28,420 (2018: US dollars 32,305) at average interest rate of 5.62% per annum (2018: 5.72%). Loans are expected to be repaid in 2024-2025. Interest income earned in respect of the loan receivable from STEAS during the year ended 31 December 2019 was US dollars 3,691 (2018: US dollars 516). As at 31 December 2019 the Group recognised ECL on loan receivable from STEAS in the amount of US dollars 2,394 (31 December 2018: US dollars 2,159).

#### 11. Cash and cash equivalents, deposits

Cash and cash equivalents consisted of the following at 31 December:

	2019	2018
Cash at bank, USD	94,845	194,035
Cash at bank, EUR	5	110,473
Cash at bank, AZN	35	28
Cash at bank, other	323	97
<b>Total cash and cash equivalents</b>	<b>95,208</b>	<b>304,633</b>

#### Deposits

As at 31 December 2019 the Group had deposit balance in the amount of US dollars 160,000 (31 December 2018: US dollars 480,000). Income earned in respect of deposit balance with average interest rate 2.25% (2018: 2.53%) in the amount of US dollars 7,851 was recognised within interest income. As at 31 December 2019 the Group recognised ECL on deposit in the amount of US dollars 2 (31 December 2018: US dollars 29).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

## 12. Accounts receivable

Accounts receivable consisted of the following at 31 December:

	<b>2019</b>	<b>2018</b>
Receivable from BOTAS	24,038	11,938
Receivable from AGSC	4,999	11,267
Receivable from crude oil sales to third parties	9,540	6,559
Receivable from the SD Operator	5,191	2,553
<b>Total accounts receivable</b>	<b>43,768</b>	<b>32,317</b>

The ownership of gas in TANAP pipeline system belonged to BOTAS and TANAP A.Ş. is obliged to deliver the gas to the exit points under respective Gas Transportation Agreement. During the year ended 31 December 2019 the Group recognised revenue from BOTAS in the amount of US dollars 216,615 (2018: US dollar 71,610) and as at 31 December 2019 account receivable from BOTAS amounted to US dollar 24,038 (31 December 2018: US dollars 11,938).

Receivables from AGSC represent amounts for SD natural gas sold to the parties under relevant gas sales agreements, for which no consideration was transferred to the Group as at 31 December 2019 and 2018.

According to the crude oil sales agency agreement, the Group appointed SOCAR Marketing and Operations Department ("SOCAR MO"), a subsidiary of SOCAR, as its trading and marketing agent in respect of SD PSA petroleum. SOCAR MO charges the Group commission fees for agency and marketing services at 0.5% (value added tax ("VAT") inclusive) of the value of crude oil sold. Receivables from crude oil sales represent a petroleum sold to third parties, for which no consideration was transferred to the Group as at 31 December 2019 and 2018.

## 13. Share capital, additional paid-in capital, other reserves and non-controlling interest

### Share capital and additional paid-in capital

As at 31 December 2019 and 31 December 2018 the Company had authorised, issued and fully paid 100 ordinary shares at par value of US dollars 24,158 each. Each share entitles one vote to the shareholder. As at 31 December 2019 and 31 December 2018 additional paid-in capital amounted to US dollars 31,481.

### Other reserves

On 13 April 2015 the Company sold its 30% interest in its subsidiary – TANAP A.Ş. to BOTAS. Total consideration comprised of cash consideration paid by BOTAS in the amount of US dollars 168,226 and fair value of deferred consideration in the amount of US dollars 28,006. On 16 April 2015 the Company sold 12% interest in its subsidiary – TANAP A.Ş. to BP for cash consideration of US dollars 97,423. The difference between the net book value of interest in net assets sold (US dollars 338,831) and the fair value of considerations received from BOTAS and BP was recognised as loss on sale of share in subsidiary in other reserves in the amount of US dollars 45,176.

On 9 February 2018 the Company sold its 7% interest in its subsidiary – TANAP A.Ş. to STEAS. Total consideration comprised of cash consideration paid by STEAS in the amount of US dollars 95,000 and fair value of deferred consideration in the amount of US dollars 297,633. Total consideration comprised of two components as loan payable by TANAP A.Ş. to the Company and equity in the amount of US dollars 202,279 and US dollars 190,354, respectively. The difference between the net book value of equity interest (US dollars 179,359) and the fair value of consideration received from STEAS was recognised as gain on sale of share in subsidiary in other reserves in the amount of US dollars 10,995.

In May 2019, the Group's associate – TAP AG entered into hedge relations to hedge the risk arising from its loans and signed interest rate swap agreements. As the result of change in fair value of hedge instrument, TAP AG recognised other comprehensive loss in the amount of US dollar 104,005 for the year ended 31 December 2019 and the Group's share in this loss of associate amounted US dollars 20,801 was recognised in other reserves as of 31 December 2019.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***13. Share capital, additional paid-in capital, other reserves and non-controlling interest (continued)****Additional contribution to TANAP**

During 2019 the Company, BOTAS, STEAS and BP made cash contributions to the charter capital of TANAP in proportion to their ownership interest. The contribution made by BOTAS, STEAS and BP in the total amount of US dollars 99,470 was recognised as an increase in the NCIs (2018: US dollars 174,717).

**14. Borrowings and Government grant**

As at 31 December 2019 and 2018 interest-bearing borrowings were comprised of the following:

Facility	31 December 2019	31 December 2018
Bonds	4,606,933	4,469,350
Loans from non-controlling shareholders	1,849,001	1,611,252
Loans from financial institutions	2,004,678	2,160,827
<b>Total borrowings</b>	<b>8,460,612</b>	<b>8,241,429</b>

Original currency and maturities of the borrowings as at 31 December 2019 are presented below:

Facility	Original currency	Maturity date	31 December 2019	
			Non-current portion	Current portion
Bonds issued to SOFAZ	USD	May-November 2024	2,524,285	–
Eurobond 1	USD	March 2026	988,758	21,406
Eurobond 2	USD	March 2026	1,072,484	–
Loan from BOTAS	USD	2020-2023	1,025,952	104,756
Loan from BP	USD	2020-2023	410,382	41,902
Loan from STEAS	USD	2020-2023	241,777	24,443
Loan from IBRD	USD	December 2046	400,003	–
Loan from AIIB	USD	December 2046	598,501	–
Loan from EBRD	USD	October 2035	494,043	–
Loan guaranteed by ADB	USD	December 2032	511,920	–
<b>Total borrowings</b>			<b>8,268,105</b>	<b>192,507</b>

Original currency and maturities of the borrowings as at 31 December 2018 are presented below:

Facility	Original currency	Maturity date	31 December 2018	
			Non-current portion	Current portion
Bonds issued to SOFAZ	USD	May-November 2024	2,379,882	–
Eurobond 1	USD	March 2026	988,758	20,996
Eurobond 2	USD	March 2026	1,072,752	6,962
Loan from BOTAS	USD	2021-2023	983,601	–
Loan from BP	USD	2021-2023	395,424	–
Loan from STEAS	USD	2021-2023	232,227	–
Loan from IBRD	USD	December 2046	399,764	–
Loan from AIIB	USD	December 2046	603,324	–
Loan from EBRD	USD	October 2035	497,347	–
Loan guaranteed by ADB	USD	December 2032	514,930	–
Loan guaranteed by MIGA	USD	June 2033	130,452	–
Loan guaranteed by MIGA	EUR	June 2033	15,010	–
<b>Total borrowings</b>			<b>8,213,471</b>	<b>27,958</b>

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***14. Borrowings and Government grant (continued)****Government grant**

In accordance with the Presidential Decree dated 25 February 2014 SOFAZ, a governmental fund established for funding of important socio-economic projects, was assigned to finance the Group's acquisitions of interests in the projects described in Note 1. Following this Decree, in 2014 the Group issued bonds to SOFAZ in the aggregate amount of US dollars 2,516,996 with maturity period of 10 years. At initial recognition, the Group calculated the fair value of the bond using market rate for similar financial instruments (4.5% + 6 months LIBOR) and recognised US dollars 704,270 of difference between fair value and nominal amount of the bond as government grant in its consolidated statements of financial position.

During the year ended 31 December 2019 the Group recognised income from government grant in the amount of US dollars 21,839 which was recognised within other income (2018: US dollars 18,896).

**Changes in liabilities arising from financing activities**

	1 January 2019	Cash flows	Non-cash Flows	Finance cost	31 December 2019
Non-current interest-bearing loans and borrowings	8,213,471	(59,677)	(182,334)	296,645	8,268,105
Non-current lease liabilities	34,301	-	(7,579)	2,072	28,794
Current lease liabilities	5,439	(7,839)	7,579	328	5,507
Current interest-bearing loans and borrowings	27,958	(251,002)	171,101	244,450	192,507
<b>Total liabilities from financing activities</b>	<b>8,281,169</b>	<b>(318,518)</b>	<b>(11,233)</b>	<b>543,495</b>	<b>8,494,913</b>

	1 January 2018	Cash flows	Non-cash flows	Finance cost	31 December 2018
Non-current interest-bearing loans and borrowings	6,527,678	1,179,930	202,279	303,584	8,213,471
Current interest-bearing loans and borrowings	33,673	(209,762)	-	204,047	27,958
<b>Total liabilities from financing activities</b>	<b>6,561,351</b>	<b>970,168</b>	<b>202,279</b>	<b>507,631</b>	<b>8,241,429</b>

**15. Decommissioning liabilities**

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and pipeline assets. Movements in provisions for the related asset retirement obligations are as follows:

	31 December 2019	31 December 2018
<b>Opening carrying amount</b>	<b>116,436</b>	<b>108,259</b>
Additional liability during the year	2,562	20,680
Unwinding of present value discount	8,189	5,772
Effect of discount rate revision	30,517	(18,275)
<b>Closing carrying amount</b>	<b>157,704</b>	<b>116,436</b>

Under the provisions of the SD PSA, SCP and TANAP HGA all Contractor Parties will have to make contributions to an abandonment fund, which will be used to finance the decommissioning and dismantling of constructed assets after the maturity of the SD PSA, SCP and TANAP.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

### 15. Decommissioning liabilities (continued)

The maximum amount of decommissioning fund cannot exceed 10% of the capital costs in accordance with SD PSA. Decommissioning liability is estimated based on capital expenditures incurred in respect of assets already employed as at the end of each financial year. The Group share of the estimated undiscounted cost to abandon the production facilities employed in SD PSA was US dollar 209,220 as at 31 December 2019 (31 December 2018: US dollars 194,313).

The Group's share of expected undiscounted cost to decommission the SCP pipeline facilities at 31 December 2019 was US dollars 31,963 (31 December 2018: US dollars 29,695). The Group used a 2.5% (31 December 2018: 2.5%) inflation rate in its estimate of the retirement obligation upon termination of HGA.

The Group's share of expected undiscounted cost to decommission the TANAP pipeline facilities at 31 December 2019 was US dollars 222,656 (31 December 2018: US dollars 204,409). The Group used a 2.1% (31 December 2018: 2.1%) inflation rate in its estimate of the retirement obligation upon termination of HGA. The Group used a pre-tax rate that reflects current market assessments of the time value of money to discount expected decommissioning costs.

### 16. Trade and other payables accrued liabilities

Trade and other payables and accrued liabilities mainly consist of payables related to SD Stage 2 development, expansion of SCP and construction of TANAP Phase 1 as at 31 December 2019 and 31 December 2018.

### 17. Revenue

The Group's revenue consisted of the following for the years ended 31 December:

	<b>2019</b>	<b>2018</b>
Revenue from sale of gas	134,802	102,390
Revenue from sale of crude oil	101,193	79,568
Revenue from transportation of gas (Note 12)	216,615	71,610
<b>Total revenue</b>	<b>452,610</b>	<b>253,568</b>

According to the provisions of the SD PSA, the profit oil and gas is shared between the Government and the Contractor Parties depending on cumulative after-tax real rate of return achieved as at the end of each calendar quarter by the Contractor Parties. During four quarters of both years (2019 and 2018) the profit oil and gas was shared at a ratio of 55% to 45% in favor of the Contractor Parties.

Set out below is the disaggregation of the Group's revenue from contracts with customers as of 31 December:

<b>31 December 2019</b>	<b>Oil and gas</b>	<b>Distribution</b>	<b>Total</b>
<b>Type of goods/service</b>			
Sale of natural gas, net	134,802	-	<b>134,802</b>
Sale of crude oil, net	101,193	-	<b>101,193</b>
Transportation revenue	-	216,615	<b>216,615</b>
<b>Total</b>	<b>235,995</b>	<b>216,615</b>	<b>452,610</b>
Azerbaijan	235,995	-	<b>235,995</b>
Turkey	-	216,615	<b>216,615</b>
<b>Total</b>	<b>235,995</b>	<b>216,615</b>	<b>452,610</b>
Good transferred at a point in time	235,995	-	<b>235,995</b>
Services transferred over time	-	216,615	<b>216,615</b>
<b>Total</b>	<b>235,995</b>	<b>216,615</b>	<b>452,610</b>

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***17. Revenue (continued)**

<b>31 December 2018</b>	<b>Oil and gas</b>	<b>Distribution</b>	<b>Total</b>
<b>Type of goods/service</b>			
Sale of natural gas, net	102,390	–	<b>102,390</b>
Sale of crude oil, net	79,568	–	<b>79,568</b>
Transportation revenue	–	71,610	<b>71,610</b>
<b>Total</b>	<b>181,958</b>	<b>71,610</b>	<b>253,568</b>
Azerbaijan	181,958	–	<b>181,958</b>
Turkey	–	71,610	<b>71,610</b>
<b>Total</b>	<b>181,958</b>	<b>71,610</b>	<b>253,568</b>
Good transferred at a point in time	181,958	–	<b>181,958</b>
Services transferred over time	–	71,610	<b>71,610</b>
<b>Total</b>	<b>181,958</b>	<b>71,610</b>	<b>253,568</b>

**18. Cost of sales**

The Group's cost of sales consisted of the following for the year ended 31 December:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Depreciation and depletion	6	230,408	120,404
Other costs	5	16,867	12,429
		<b>247,275</b>	<b>132,833</b>

**19. Interest income**

The Group's interest income consisted of the following for the year ended 31 December:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Accrued income on loan receivable from STEAS	10	22,342	15,275
Accrued income on loan receivable from BOTAS	10	10,627	9,357
Accrued income on loan receivable from TAP AG	10	21	7,578
Income on deposits	11	7,851	–
Other interest income		3,801	2,607
<b>Total interest income</b>		<b>44,642</b>	<b>34,817</b>

**20. Taxation**

The Group's income tax expense consisted of the following:

	<b>2019</b>	<b>2018</b>
Current tax charge	2,372	5,284
Deferred tax (benefit)/charge	(1,301)	381
<b>Income tax expenses</b>	<b>1,071</b>	<b>5,665</b>



*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## 20. Taxation (continued)

The Group does not file a consolidated tax return. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In accordance with Azerbaijani tax legislation, tax losses arising in one period can be carried forward for five years. SGC CJSC has accumulated losses in the amount of US dollars 659,905 in 2019 statutory books (2018: US dollars 445,695) which are not expected to be utilised within five years. The Group did not recognise deferred tax assets on these losses.

### Taxation under the SD Project

According to the provisions of SD PSA, the contractor parties are liable to pay income taxes related to the operations under the SD Project. According to the same provisions, the respective state body of the Republic of Azerbaijan remits to the State Budget income taxes of each contractor party and reimburses the respective amount from condensate and natural gas attributable to the State. Accordingly, as a contractor party to SD PSA, the Group is liable for Azerbaijani income taxes and at the same time is entitled to additional profit petroleum. During the year ended 31 December 2019 and 2018 the Group had no income taxes from the activities in SD PSA as it declared losses in the tax books. There is no time limit on utilisation of accumulated losses.

The Group is exempt from certain ordinary operational taxes including Azerbaijani value added taxes in accordance with provision of SD PSA.

### Taxation under the SCP project

SGC Midstream LLC elected SCPC to represent it in all tax issues before the tax authorities, so that the Group is a non-tax electing shareholder in accordance with the terms of Azerbaijani HGA. SCPC is liable for Azerbaijani income tax and Georgian minimum tax with respect to the income and deductions of, and natural gas transported by, SCPC, which are allocable to non-tax electing shareholders, including the Group.

The following taxes have been enacted:

- ▶ Azerbaijani income tax at a fixed rate of 27%;
- ▶ Georgian income tax at a fixed rate of 25%;
- ▶ Georgian minimum tax (the "GMT") at a fixed rate of US dollars 2.50 per thousand of cubic meters of gas delivered to Georgian-Turkey border.

### Georgian income tax and minimum tax

According to Georgian HGA, SCPC is liable for the income tax at a fixed rate of 25% for income generated from operations in Georgia. In case SCPC does not generate taxable income during a fiscal year, it shall be liable for GMT. The GMT for the preceding periods can be carried forward without limitation and credited against future income tax liability of SCPC in Georgia. The Group estimates that the GMT will exceed the income tax under Georgian HGA.

The provision for income taxes mainly comprised of the Group's share in Azerbaijan income tax expense, Georgian minimum tax expense and deferred tax expense of SCPC for the year ended 31 December 2019.

Deferred tax liabilities of SCPC are calculated on the temporary differences arising from the differences in accounting under IFRS and HGA (accrual versus cash basis). As at 31 December 2019, the Group's portion in the deferred tax liabilities of SCPC equaled to US dollars 12,558 (31 December 2018: US dollars 14,007).

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***20. Taxation (continued)****Operating tax of TANAP A.Ş**

As per the HGA between the Republic of Turkey and TANAP A.Ş., it was determined that the corporate income tax of TANAP A.Ş. will only be based on the amount of natural gas transmitted from the pipeline after the pipeline is put in use. According to tax ruling received on 7 April 2017 TANAP A.Ş. is not subject to corporate tax. TANAP A.Ş. is required to pay tax of US dollars 5.95 per thousand cubic metrics of gas measured at entry point.

**21. Transactions with related parties**

Transactions with related parties consisted of the following:

Related party	As at 31 December 2019			For the year ended 31 December 2019		
	Long-term borrowings	Advance payments	Accounts receivable	Loan receivables	Receipts from related parties	Settlements with related parties
SOFAZ (Note 14)	2,524,285	-	-	-	-	-
AzSD	-	1,854,770	-	-	-	-
AzSCP	-	682,186	-	-	-	-
SOCAR MO	-	-	-	-	-	398
AGSC	-	-	4,999	-	125,704	-
STEAS (Note 10, 14)	266,220	-	-	393,581	-	-
<b>Total</b>	<b>2,790,505</b>	<b>2,536,956</b>	<b>4,999</b>	<b>393,581</b>	<b>125,704</b>	<b>398</b>
<b>Total category</b>	<b>8,268,105</b>	<b>2,554,194</b>	<b>43,768</b>	<b>652,500</b>		

Related party	As at 31 December 2018			For the year ended 31 December 2018		
	Long-term borrowings	Advance payments	Accounts receivable	Loan receivables	Receipts from related parties	Settlements with related parties
SOFAZ (Note 14)	2,379,882	-	-	-	-	-
AzSD	-	1,854,770	-	-	-	35,539
AzSCP	-	682,186	-	-	-	103,910
SOCAR MO	-	-	-	-	-	349
AGSC	-	-	11,267	-	89,561	-
STEAS (Note 10, 13, 14)	232,227	-	-	343,054	95,000	-
TAP AG (Note 10)	-	-	-	10,999	594,349	176,808
<b>Total</b>	<b>2,612,109</b>	<b>2,536,956</b>	<b>11,267</b>	<b>354,053</b>	<b>778,910</b>	<b>316,606</b>
<b>Total category</b>	<b>8,213,471</b>	<b>2,567,116</b>	<b>32,317</b>	<b>588,739</b>		

**AzSD**

Settlements with AzSD (a subsidiary of SOCAR) during the year ended 31 December 2018 are represented by US dollars 35,539 advances paid for acquisition of 10% share in SD PSA and 8% share in AGSC under the DSPA. Settlement with AzSD during the year ended 31 December 2019 was nil. Refer to Note 24.

**AzSCP**

Settlements with AzSCP (a subsidiary of SOCAR) during the year ended 31 December 2018 are represented by US dollars 103,910 advances paid for acquisition of 10% shares in SCPC under the DSPA. Settlement with AzSCP was during the year ended 31 December 2019 was nil. Refer to Note 24.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

## 21. Transactions with related parties (continued)

### SOCAR MO

SOCAR MO performs sale of crude oil on behalf of the Group and charges the Group commission fees for agency and marketing services at 0.5% (VAT inclusive) of the value of crude oil sold.

### AGSC

AGSC is a company established by the contractor parties of the SD PSA for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of SD gas. Receipts from AGSC represent cash received in the amount of US dollars 125,704 (31 December 2018: US dollars 89,561) from sale of gas to AGSC.

### Key management personnel

The senior management group consisted of the Group's General Director, Deputy General Director and three department directors as at 31 December 2019 and 2018. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category was:

	31 December 2019	31 December 2018
Aggregate remuneration	205	187
Number of persons	5	5

The Company also incurred expenses for management services provided by SOCAR Upstream Management International LLC and SOCAR Midstream Operations LLC in the total amount of US dollars 1,423 during the year ended 31 December 2019 (2018: US dollars 1,457) under the Operator Services Agreement signed in December 2014.

## 22. Financial risk management objectives and policies

### Financial risk factors

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

#### (i) Interest rate risk

The Group is subject to interest rate risk on financial liabilities and assets with variable interest rates. To mitigate this risk, the Group's management performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***22. Financial risk management objectives and policies (continued)****Financial risk factors (continued)**

The floating rate for majority of interest-bearing liabilities and assets exposes the Group to fluctuation in interest payments and receipts mainly due to changes in LIBOR.

2019	Change in floating variable		Effect on loss before tax	
	Increase	Decrease	After increase	After decrease
LIBOR	+0.35	-0.35	(14,183)	14,183

2018	Change in floating variable		Effect on loss before tax	
	Increase	Decrease	After increase	After decrease
LIBOR	+0.50	-0.15	(17,353)	2,534
EURIBOR	+0.20	-0.01	(3)	-
EUR rate per ESTV	+0.50	-0.50	2,372	(2,372)

*(ii) Credit risk*

Financial instruments involve, to varying degrees, credit risks. The Group is subject to credit risk from its portfolio of loan receivable, cash and cash equivalents, deposits, accounts receivable and other current and non-current assets and would be exposed to losses in the event of non-performance by counterparties.

The Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure of US dollars 962,491 and US dollars 1,425,880 as at 31 December 2019 and 31 December 2018, respectively.

The Group places its cash with high credit quality financial institutions, primarily with those rated A1 by credit rating agencies. The Group generally trades with recognised and reputable third parties. It is the Group's policy that all customers who wish to trade for condensate are required to procure the issuance of letters of credit. Gas sales are made through AGSC to state-owned entities or entities with strong financial position.

*(iii) Liquidity risk*

The Group monitors its risk to a shortage of funds by reviewing its net financial debt indicator on a regular basis. The net financial debt represents the difference between total financial liabilities and cash and cash equivalents. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans.

The tables below summarise the maturity profile of the Group's financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted payments:

2019	On demand	3 to 12 months	1 to 5 years	>5 years	Total
Trade and other payables	-	32,125	-	-	32,125
Accrued liabilities	-	87,469	-	-	87,469
Lease liability	1,894	5,593	33,261	-	40,748
Interest-bearing borrowings	-	623,792	6,737,287	4,255,679	11,616,758
<b>Total</b>	<b>1,894</b>	<b>748,979</b>	<b>6,770,548</b>	<b>4,255,679</b>	<b>11,777,100</b>

2018	On demand	3 to 12 months	1 to 5 years	>5 years	Total
Trade and other payables	-	50,766	-	-	50,766
Accrued liabilities	-	384,785	-	-	384,785
Interest-bearing borrowings	-	232,753	4,051,580	7,455,288	11,739,621
<b>Total</b>	<b>-</b>	<b>668,304</b>	<b>4,051,580</b>	<b>7,455,288</b>	<b>12,175,172</b>

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***22. Financial risk management objectives and policies (continued)****Financial risk factors (continued)***(iv) Capital management*

The primary objective of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain shareholders and creditor confidence to support its business activities. The Group considers total capital under management to be as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Long-term borrowings (Note 14)	8,268,105	8,213,471
Short-term and current portion of long-term borrowings (Note 14)	192,507	27,958
Less: cash and cash equivalents (Note 11)	(95,208)	(304,633)
<b>Net debt</b>	<b>8,365,404</b>	<b>7,936,796</b>
Equity attributable to the Group's equity holders	1,837,737	2,072,491
<b>Capital</b>	<b>10,203,141</b>	<b>10,009,287</b>
<b>Gearing ratio</b>	<b>82%</b>	<b>79%</b>

The target of the Group's capital management is to maintain the debt to equity ratio within 75-85%.

*(v) Foreign exchange risk*

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

The Group's foreign currency positions as of 31 December 2019 and 2018 are disclosed below:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Foreign currency assets	5	126,877
Foreign currency liabilities	-	(15,010)
<b>Net foreign currency position</b>	<b>5</b>	<b>111,867</b>

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rates, with all other variables held constant, of the Group's loss before tax.

	<b>Change in rates (+/-)</b>	<b>Effect on loss before tax</b>
<b>2019</b>		
EUR/USD	8.00%/ -8.00%	-/-
<b>2018</b>		
EUR/USD	12.50%/ -7.50%	12,305/(7,831)

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***22. Financial risk management objectives and policies (continued)****Financial risk factors (continued)***(vi) Fair value of financial instruments*

The fair value of the financial assets and liabilities is included in the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

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

	<b>31 December 2019</b>	
	<b>Carrying amounts</b>	<b>Fair values</b>
Cash and cash equivalents (Note 11)	95,208	95,208
Deposits (Note 11)	167,849	167,849
Accounts receivable (Note 12)	43,768	43,768
Other current assets	3,080	3,080
Other non-current assets	86	86
Loan receivable (Note 10)	652,500	637,485
<b>Total financial assets</b>	<b>962,491</b>	<b>947,476</b>
Trade and other payables	(32,125)	(32,125)
Accrued liabilities (Note 16)	(87,469)	(87,469)
Current portion of lease liabilities (Note 4)	(5,507)	(5,507)
Short-term and current portion of long-term borrowings (Note 14)	(192,507)	(192,507)
Long-term lease liabilities (Note 4)	(28,794)	(28,794)
Eurobonds (Note 14)	(2,061,242)	(2,037,600)
Long-term borrowings, excluding Eurobonds (Note 14)	(6,206,863)	(6,205,222)
<b>Total financial liabilities</b>	<b>(8,614,507)</b>	<b>(8,589,224)</b>
	<b>31 December 2018</b>	
	<b>Carrying amounts</b>	<b>Fair values</b>
Cash and cash equivalents (Note 11)	304,633	304,633
Deposits (Note 11)	479,971	479,971
Accounts receivable (Note 12)	32,317	32,317
Other current assets	6,721	6,721
Other non-current assets	13,499	12,396
Loan receivable (Note 10)	588,739	571,017
<b>Total financial assets</b>	<b>1,425,880</b>	<b>1,407,055</b>
Trade and other payables	(50,766)	(50,766)
Accrued liabilities (Note 16)	(384,785)	(384,785)
Short-term and current portion of long-term borrowings (Note 14)	(27,958)	(27,958)
Eurobonds (Note 14)	(2,061,510)	(2,173,300)
Long-term borrowings, excluding Eurobonds (Note 14)	(6,151,961)	(6,161,783)
<b>Total financial liabilities</b>	<b>(8,676,980)</b>	<b>(8,798,592)</b>

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## **22. Financial risk management objectives and policies (continued)**

### **Financial risk factors (continued)**

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

- (i) Current financial assets and liabilities approximate their carrying amounts largely due to the current maturities of these instruments;
- (ii) Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group using Level 3 inputs based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of customers and the risk characteristics of the financed project.
- (iii) Eurobonds are evaluated using Level 1 inputs based on quoted market prices.

The fair values of the Group's interest-bearing borrowings and loans receivable are determined by using the discounted cash flow ("DCF") method using discount rate that reflects the market borrowing rate as at the end of the reporting period.

## **23. Commitments and contingencies**

### **Commitments related to participating interest in SD PSA**

On 17 December 2013 SD consortium announced the final investment decision for Stage 2 development of SD gas field in the Azerbaijan Sector of the Caspian Sea and signed Sixth, Seventh and Eighth Addendums to SD PSA. The Group is committed to finance expenditures related to SD project based on its share of interest.

As of 31 December 2019, the SD PSA operator has entered into a number of capital and operating commitments. The Group estimated its 6.67% share of these capital and operating commitments in the amount of US dollars 198,760 and US dollars 33,952, respectively (31 December 2018: US dollars 259,605 and US dollars 47,540, respectively).

### **Commitment related to SCP Expansion**

SD PSA Contractor Parties announced the final investment decision on SCP Expansion project on 17 December 2013. SCP Expansion project objective is to expand the existing SCP system capacity. Due to SCP Expansion additional facilities are constructed in Georgia for the purposes of interconnection with TANAP. The Group has the commitment to fund the SCP Expansion project equivalent to its 6.67% shares throughout the construction and operational phase. First commercial deliveries of gas under the SCP Expansion project took place on 30 June 2018 and construction of remaining SCP Expansion project elements was completed on 31 March 2019. As at 31 December 2019 the Group's share in the remaining budget for SCP Expansion is estimated in the amount of US dollars 1,741 (31 December 2018: US dollars 10,112).

### **Commitment related to TANAP**

#### *Construction of TANAP*

The Group has capital commitment to fund TANAP project. As at 31 December 2019 the remaining budget for finalisation of TANAP system is estimated in the amount of US dollars 237,863 (31 December 2018: US dollars 751,280).

### **Commitment related to TAP**

#### *Construction of TAP*

The Group has the commitment to fund construction of TAP system. In late 2018 TAP AG reached financial close under the project financing in the total amount of EUR 3,962,700 (three billion nine hundred and sixty-two million seven hundred thousand) which is equivalent to US dollars 4,437,059 at the reporting date, provided by a large group of financial institutions. The Group acts as one of the guarantors of the loan facilities for the 20% shares that it holds in TAP AG and continues to provide required equity financing to TAP AG pro-rata to its equity share. As of 31 December 2019, the Group's share of the remaining financing for the construction of the TAP system is estimated in the amount of US dollars 29,219 (31 December 2018: US dollars 50,830).

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

### **23. Commitments and contingencies (continued)**

#### **Commitments related to participating interest in AGSC, TANAP, TAP and SCPC**

##### *BOTAS gas contract*

AGSC is obliged under the gas contract signed with BOTAS to make available a maximum of approximately 6.6 billion Contract Cubic Meters (BCcm) of gas annually until the expiry of the contract at a price calculated based on a formula established by the gas contract.

##### *Stage 2 SPA*

On 25 October 2011, SOCAR and BOTAS executed a gas sale and purchase Agreement ("Stage 2 SPA") with respect to the sale by SOCAR to BOTAS of certain volumes of SD Stage 2 Gas (2 BCcm first year, 4 BCcm second delivery year, 6 BCcm plateau period). In December 2012, SOCAR transferred and assigned the rights and obligations under BOTAS 2 SPA to AGSC. The commencement date under Stage 2 SPA was 30 June 2018.

##### *BOTAS contract for BTC fuel gas*

AGSC is obliged under the agreement with BOTAS to make available 0.15 BCcm of gas annually until the expiry of the contract at a price, which is calculated based on the formula established in the contract.

##### *Azerbaijan gas obligation*

AGSC is obliged under the agreement signed with SOCAR to make available a minimum of approximately 1.5 bcm of gas annually in 2020 and onwards at a price calculated based on the formula established in the agreement.

##### *Georgian gas obligation*

AGSC is obliged under the agreement signed with Georgian Oil and Gas Corporation ("GOGC") and the government of Georgia to make available 0.5 bcm of gas annually in 2020 and onwards, at a price which is calculated based on the formula established in the contract.

##### *Sale and purchase agreement with South Caucasus Pipeline Option Gas Company Limited ("OptionCo", a wholly owned subsidiary of SCPC)*

AGSC is obliged under the agreement signed with OptionCo to make available during each contract year a maximum of five percent of the volumes transported in the previous contract year by AGSC via SCP through territory of Georgia, at a price, which is calculated based on a formula established in the contract.

##### *SD Stage 2 EU Long term Gas Sales Agreements ("GSAs")*

In September 2013, several EU GSAs were signed by SOCAR with EU Buyers (currently: DEPA, Bulgargaz Shell, Uniper, Axpo, ENGIE, Edison, Enel, Hera) and in December 2013 the GSAs were assigned to AGSC until SD PSA expiry with re-assignment to SOCAR as SD Production declines. The commencement date will be firmed up through funneling mechanism as defined in the GSAs.

##### *Trans Anatolian Pipeline Gas Transportation Agreement (TANAP GTA)*

AGSC is a party to TANAP GTA with annual reserved capacity as defined in the contract. The planned commencement date is a date falling in the second half of 2020.

##### *Trans Adriatic Pipeline GTA (TAP GTA)*

AGSC is a party to TAP GTA with annual capacity as defined in the contract. The planned commencement date is a date falling in the second half of 2020.



*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

### **23. Commitments and contingencies (continued)**

#### **Commitments related to participating interest in AGSC, TANAP, TAP and SCPC (continued)**

##### *SNAM GTA*

AGSC is a party to SNAM GTA with annual reserved capacity as defined in the contract. The planned commencement date will be set through a funnelling mechanism.

##### *Sale and purchase agreement with Baku-Tbilisi-Ceyhan Pipeline Company ("BTC Co")*

AGSC is obliged under an agreement signed with BTC Co to make available 0.16 Bcm in 2020 and during the following years until the termination of the contract subject to the right of BTC Co to reduce annual off-take, at a price which is calculated based on the formula established in the contract.

##### *BOTAS Gas Transportation Agreement (BOTAS GTA)*

TANAP is a party to BOTAS GTA with annual reserved capacity during the build-up period, as defined in the contract, of 1.9 BCcm (12 month period commencing on start date), 3.8 bcm (next 12 month period) and plateau of 5.7 BCcm 24 months after the start date. The start date was 30 June 2018.

##### *AGSC – SOCAR Gas Sales Agreement*

Under the agreement for sales and purchase between AGSC and SOCAR dated 17 December 2013 ("AGSC – SOCAR Gas Sales Agreement") as further amended and restated, SOCAR is obliged to buy volumes of gas, stipulated in the agreement, within the period from September 2018 to June 2020 (with possibility of extension of the contract period until the end of 2020).

##### *Framework agreement*

A fully-termed Framework Agreement related to the novation of long-term GSAs and transfer of GTA capacity from AGSC to SOCAR after 2036 was executed on 19 October 2015 and further amended and restated on 28 September 2018.

#### **Commitment under the DSPA**

In July 2014 the Group signed the DSPA for the acquisition of 10% participating interest in SD project and 8% shares in AGSC from AzSD and 10% shares in SCPC from AzSCP. The agreement was subsequently amended by the 1<sup>st</sup> Addendum to the DSPA dated 20 December 2017 and 2<sup>nd</sup> Addendum to the DSPA dated 31 May 2019. According to the terms of this agreement the Group shall make advance payments for these acquisitions to AzSD and AzSCP, while control will pass to the Group in March 2023, provided that certain conditions precedent are satisfied. As at 31 December 2019 the Group had commitment for SD Progress Payments and SCP Progress Payments to AzSD and AzSCP, respectively (as defined in the 1<sup>st</sup> Addendum to the DSPA) to be made till 31 December 2020. The management expects no further cash outflows in connection with the DSPA.

#### **Commitment under the funding agreement with BOTAS (the "Funding Agreement")**

On 26 May 2014 SOCAR and BOTAS signed Funding Agreement for financing BOTAS's 5% shares in TANAP A.Ş., upon acquisition of shares in TANAP A.Ş. by BOTAS. On 13 March 2015, the Group signed novation agreement with SOCAR and BOTAS, where all rights and obligations under the Funding Agreement were transferred from SOCAR to the Group. According to agreement with BOTAS, the Group has commitment for providing interest free loan to BOTAS for financing its 5% share in TANAP A.Ş.'s future cash call requirements throughout the Carry Period (as defined in the Funding Agreement). The management expects no further cash outflows in connection with the Funding Agreement.

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## **24. Current business environment**

### **Azerbaijan economy**

The Group's operations are mainly conducted in the Republic of Azerbaijan and the Republic of Turkey. As an emerging market, at the present time the Republic of Azerbaijan is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government as well as crude oil prices and stability of Azerbaijani manat.

The Azerbaijan economy was negatively impacted by decline of oil prices and devaluation of Azerbaijani manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On 6 December 2016 President of the Republic of Azerbaijan approved "Strategic road maps for the national economy and main economic sectors of Azerbaijan". The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

During 2019 the government continued tight monetary policy as well as allocated foreign currency resources which stabilised Azerbaijani manat. This policy is expected to continue in 2020 with the aim of maintaining macroeconomic stability.

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

### **Turkish economy**

Turkish economy experienced more stable period during 2019 in comparison to 2018. Stability in economy was followed by decrease of deviation in inflation and devaluation of local currency against major foreign currencies such as USD and EUR by 13% (2018: 40%) and 10% (2018: 33%), respectively.

While management believes it is taking appropriate measures to support the sustainability of Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

These consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

## **25. Material partly-owned subsidiary**

As at 31 December 2019 and 2018 49% of equity interest of TANAP Doğalgaz İletim A.Ş. was held by non-controlling shareholders. As at 31 December 2019 accumulated balance of NCIs amounted to US dollars 1,371,119 (31 December 2018: US dollars 1,343,104).

*(Amounts presented are in thousands of US dollars, unless otherwise stated)***25. Material partly-owned subsidiary (continued)**

The summarised financial information of TANAP A.Ş. is provided below. This information is based on amounts before inter-company eliminations.

**Summarised statement of comprehensive income**

	<b>2019</b>	<b>2018</b>
Revenue	216,615	71,610
Cost of sales	(102,120)	(51,656)
<b>Gross profit</b>	<b>114,505</b>	<b>19,954</b>
General and administrative expenses	(75,313)	(21,048)
Other income	45	154
Interest income	694	1,427
Finance costs	(185,544)	(86,166)
Foreign exchange loss, net	(214)	(215)
<b>Loss before income tax</b>	<b>(145,827)</b>	<b>(85,894)</b>
Income tax expense	-	-
<b>Loss for the year</b>	<b>(145,827)</b>	<b>(85,894)</b>
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<b>(145,827)</b>	<b>(85,894)</b>
<b>Total comprehensive loss attributable to NCIs</b>	<b>(71,455)</b>	<b>(42,088)</b>

**Summarised statement of financial position as at 31 December**

	<b>2019</b>	<b>2018</b>
<b>Current assets</b>	<b>64,465</b>	<b>28,377</b>
including:		
<i>Cash and cash equivalents</i>	27,988	947
<i>Trade and other receivables</i>	24,040	11,952
<i>Inventories</i>	6,284	4,003
<i>Other current assets</i>	6,153	11,475
<b>Non-current assets</b>	<b>6,670,806</b>	<b>6,419,077</b>
including:		
<i>Pipeline cost</i>	4,198,697	4,300,807
<i>Construction in progress</i>	2,424,496	2,091,183
<i>Right-of-use asset</i>	32,876	-
<i>Other non-current assets</i>	14,737	27,087
<b>Current liabilities</b>	<b>442,101</b>	<b>394,010</b>
including:		
<i>Trade and other payables and accrued liabilities</i>	87,409	394,010
<i>Current portion of the long-term borrowing</i>	349,185	-
<i>Current portion of lease liability</i>	5,507	-
<b>Non-current liabilities</b>	<b>3,494,967</b>	<b>3,312,415</b>
including:		
<i>Long-term borrowings</i>	3,419,816	3,283,392
<i>Decommissioning liabilities</i>	37,810	20,631
<i>Lease liability</i>	28,794	-
<i>Other non-current liabilities</i>	8,547	8,392
<b>Total equity</b>	<b>2,798,203</b>	<b>2,741,029</b>
<b>Equity attributable to NCIs</b>	<b>1,371,119</b>	<b>1,343,104</b>

*(Amounts presented are in thousands of US dollars, unless otherwise stated)*

## 25. Material partly-owned subsidiary (continued)

### Summarised cash flow information

	2019	2018
Operating	114,745	27,439
Investing	(485,865)	(773,613)
Financing	398,161	746,399
<b>Net increase in cash and cash equivalents</b>	<b>27,041</b>	<b>225</b>

## 26. Events after the reporting date

### COVID-19

On 30 January 2020, the World Health Organization (WHO) declared the coronavirus outbreak a "Public Health Emergency of International Concern". In light of the recent rapid development of the coronavirus (COVID-19) pandemic, many countries, including the Republic of Azerbaijan, introduced quarantine measures which had significant impact on the level and scale of business activity of market participants. It is expected that both the pandemic itself and measures to minimise its consequences can affect the operations of companies from various industries. The Group considers this pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be estimated reasonably certain at the current date.

There has been significant volatility in the stock, currency and commodity markets since March 2020, including declining oil prices. As a response to this development, in March 2020 the President of the Republic of Azerbaijan signed a decree for action plans to minimise the impact of the pandemic. In accordance with this decree, anti-crisis stimulus package in the amount of US dollar 1,471 million (AZN 2,500 million) is being developed to support individuals and various businesses in the country. The Central Bank of the Republic of Azerbaijan continues its monetary policy to ensure stability of AZN exchange rates. Currently, the Group's management is analysing potential impact of changing micro and macro-economic conditions on the financial position and performance of the Group.

### Loan facility with financial institutions

In March 2020, TANAP A.Ş. entered into a loan facility agreement with a number of foreign financial institutions for the provision of loan facility of up to US dollars 475,000, with repayments of TANAP A.Ş. being fully and solely guaranteed by BP International Limited. In April 2020, TANAP A.Ş. made a drawdown under the said loan facility in the amount of US dollars 455,000 and utilised the amount for prepaying its shareholder loans due to BP Pipelines (TANAP) Limited.