“Azersu” Open Joint Stock Company

Consolidated financial statements

Year ended December 31, 2019
together with independent auditor’s report

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RSM

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Independent auditor's report

To management and those charged with governance of "Azersu" OJSC:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2019 and its financial performance and its 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 (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

June 30, 2020

RSM Azerbaijan

Baku, Azerbaijan

Consolidated statement of financial position

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	December 31, 2019	December 31, 2018
Assets			
Non-current assets			
Property, plant and equipment	5	827,102	813,301
Intangible assets		430	240
Right of use asset	6	746	–
Deferred tax assets	23	193	–
Total non-current assets		**828,471**	**813,541**
Current assets			
Inventories	8	15,503	28,232
Taxes receivable	7	20,359	23,105
Trade and other receivables	9	24,044	16,319
Prepayments		5,218	2,303
Cash and cash equivalents	10	17,963	823
Restricted cash	10	379	34,302
Total current assets		**83,466**	**105,084**
Total assets		**911,937**	**918,625**
Equity and liabilities			
Equity			
Share capital	11	400,000	400,000
Additional paid-in capital	11	6,238,703	2,013,396
Government investments	12	664,057	4,190,156
Accumulated losses		(6,977,191)	(6,384,703)
Total equity		**325,569**	**218,849**
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	13	227,831	224,717
Trade and other payables	16	30,687	61,418
Lease liabilities	17	581	–
Provisions	14	11,048	8,029
Deferred tax liabilities	23	–	80
Total non-current liabilities		**270,147**	**294,244**
Current liabilities			
Interest-bearing loans and borrowings	13	19,279	18,806
Income tax payable		2,249	2,300
Taxes and penalties payable other than income tax, net	15	3,267	2,641
Trade and other payables	16	283,032	372,654
Lease liabilities	17	187	–
Deferred revenue	20	8,180	9,104
Provisions	14	27	27
Total current liabilities		**316,221**	**405,532**
Total liabilities		**586,368**	**699,776**
Total equity and liabilities		**911,937**	**918,625**

Signed and authorized for release on behalf of the Group on June 30, 2020.

Mr. Gorkhmaz Huseynov
Chairman

Mr. Yashar Kalbiyev
Head of Economics and Accounting Department

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

Consolidated statement of profit or loss and other comprehensive income

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	Year ended December 31, 2019	Year ended December 31, 2018
Sales revenue	20	193,036	176,715
Cost of sales	22	(108,372)	(92,937)
Gross profit		**84,664**	**83,778**
Other income	21	12,072	26,300
Administrative expenses	22	(31,352)	(22,989)
Selling and distribution expenses	22	(103,115)	(76,102)
Other operating expenses	22	(538,689)	(492,876)
Foreign exchange (loss)/gain	22	(13,325)	5,007
Operating loss		**(589,745)**	**(476,882)**
Finance cost		(2,713)	(2,250)
Interest expense on lease liabilities		(54)	–
Loss before tax		**(592,512)**	**(479,132)**
Income tax gain/(expense)	23	24	(1,069)
Loss for the year		**(592,488)**	**(480,201)**
Other comprehensive income for the year		–	–
Total comprehensive loss for the year		**(592,488)**	**(480,201)**

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

Consolidated statement of changes in equity

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	Share capital	Additional paid-in capital	Government investments	Accumulated loss	Total equity
As at December 31, 2017		**400,000**	**1,568,732**	**3,874,410**	**(5,904,502)**	**(61,360)**
Increase in Additional paid-in capital	11	–	444,664	–	–	**444,664**
Net decrease in Government investments	12	–	–	315,746	–	**315,746**
Loss for the year		–	–	–	(480,201)	**(480,201)**
As at December 31, 2018		**400,000**	**2,013,396**	**4,190,156**	**(6,384,703)**	**218,849**

	Notes	Share capital	Additional paid-in capital	Government investments	Accumulated loss	Total equity
As at December 31, 2018		**400,000**	**2,013,396**	**4,190,156**	**(6,384,703)**	**218,849**
Increase in Additional paid-in capital	11	–	4,225,307	–	–	**4,225,307**
Net decrease in Government investments	12	–	–	(3,526,099)	–	**(3,526,099)**
Loss for the year		–	–	-	(592,488)	**(592,488)**
As at December 31, 2019		**400,000**	**6,238,703**	**664,057**	**(6,977,191)**	**325,569**

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

Consolidated statement of cash flows

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	Year ended December, 31 2019	Year ended December, 31 2018 (reclassified*)
Operating activities			
Loss before tax		(592,512)	(479,132)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Depreciation of property, plant and equipment and amortization cost	22	23,840	12,760
Depreciation of right of use asset	22	178	–
Change in impairment of trade and other receivables	9	4,382	4,498
Change in provision	14	3,019	(2,058)
Finance cost		2,713	2,250
Interest expense lease liabilities		54	–
Impairment of property, plant and equipment and intangible assets	22	538,689	492,876
Foreign exchange loss/(gain)		12,925	(5,145)
Loss on disposal of property, plant and equipment	22	99	558
		(6,613)	**26,607**
Working capital adjustments			
Inventories		12,729	2,218
Taxes receivable		2,746	344
Trade and other receivables		(12,107)	(2,462)
Deferred revenue		(924)	366
Trade and other payables		(1,721))	14,709
Prepayment		(2,935)	(1,634)
Taxes and penalties payable other than income tax		619	1,119
		(8,206)	**41,267**
Income tax paid		(293)	(601)
Net cash flows (used in)/from operating activities		**(8,499)**	**40,666**
Investing activities			
Purchase of property, plant and equipment		(7,653)	(10,844)
Purchase of intangible assets		(397)	(252)
Net cash flows used in investing activities		**(8,050)**	**(11,096)**
Financing activities			
Payment of lease liabilities		(190)	–
Net cash flows used in financing activities		**(190)**	–
Foreign exchange gain on cash and cash equivalents		400	138
Net (decrease)/increase in cash and cash equivalents		**(16,339)**	**29,708**
Cash and cash equivalents at the beginning of the year	10	**34,302**	**4,594**
Cash and cash equivalents at the end of the year	**10**	**17,963**	**34,302**

*Certain amounts shown here do not correspond to the 2018 financial statements and reflect adjustment made, refer to Note 2.

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

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

1. The Group's principal activity

Azersu Open Joint Stock Company ("Azersu OJSC") and its subsidiaries (the "Group") were established by the Decree of President of Republic of Azerbaijan on June 11, 2004 in accordance with legislation and are domiciled in the Republic of Azerbaijan. The Group is 100% owned by the government of the Republic of Azerbaijan (the "Government") and is a natural monopoly in charge of the implementation of the Government policy and strategy in the field of water supply, drinking water supply and sanitation services in the Republic of Azerbaijan. The Group's main functions pertain to extraction of water from sources followed by treatment as filtering and stabilization of water specification to make available to consumers' use, distribution and sale within the Republic of Azerbaijan.

The subsidiaries of the Group are disclosed in Note 11.

The registered address of the Group is 67, Moscow avenue, AZ1012, Baku, the Republic of Azerbaijan.

2. Basis of preparation and significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Going concern

The going concern basis assumes that the Group will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Group's current liabilities exceeded its current assets by AZN 232,755 and AZN 300,448 as at December 31, 2019 and December 31, 2018, respectively, due to significant current investments in the infrastructure projects. The Group incurred a net loss of AZN 592,488 during the year ended December 31, 2019 (December 31 2018: AZN 480,201). The Group is part of the Government monopoly for supply of water and sewerage services and the Government keeps on investing to sustain the operations of the Group along with current investment projects.

The Group is actively involved in investing activities of construction of new water pipelines and sewerage systems in the Republic of Azerbaijan and receives subsidies from the Government on a regular basis. Historically the Group has had operating losses, negative cash flows from operations, and working capital deficit. The main reason of that, tariffs for services established by the Tariff (price) Council of the Republic of Azerbaijan are below the cost of the Group's water and sewerage services. According to the Group' report for the year ended December 31, 2019 which has been prepared with the basis of consequent legislation, the cost of one m^3 of water and sewerage services is AZN 1.42 and the average selling price is 0.75 AZN. During the reporting year, the cost of 1 m^3 of water and sewerage service is approximately 2 times more than the average selling price.

Management has developed a Master-Plan related to construction of new infrastructure projects as well as repair of existing facilities for future generation of cash inflows, which will enable the Group to increase its subscribers, collection of receivables and reduce sales losses. Moreover, on May 13, 2016 Tariff Council of the Republic of Azerbaijan approved increase of water prices and waste water treatment tariffs charged to customers. These new tariffs have been effective from May 16, 2016. Eventually this will lead to enhance the Group's financial position upon completion of the capital projects which are currently under construction. The Group continues to remain dependent on its ability to obtain sufficient funding from the Government to sustain operations and complete its current investment projects.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Going concern (continued)

These conditions give rise to an uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. However, the Government as an ultimate shareholder of the Group has an incentive to continue to support financing the Group because of its social contribution and importance to the country. Management believes that appropriate measures are being taken for the Group to continue its operational existence in the foreseeable future. Accordingly, the Group applied going concern basis in preparing its consolidated financial statements.

Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of "Azersu" OJSC and its subsidiaries as at December 31, 2019. Subsidiaries are all entities (including special-purpose entities) over which the Group has control, being the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Foreign currency translation

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

The functional currency of "Azersu" OJSC and its subsidiaries is AZN as the majority of the Group's revenues, costs, inventory purchased, and trade liabilities are either priced, incurred, payable or otherwise measured in AZN.

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Foreign exchange gains and losses resulting from the re-measurement of monetary assets into the functional currency are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in other comprehensive income ("OCI") or profit or loss are also recognized in OCI or profit or loss, respectively).

AZN is not a fully convertible currency outside the territory of the Republic of Azerbaijan. Within the Republic of Azerbaijan, official exchange rates are determined daily by the Central Bank of the Republic of Azerbaijan ("Central Bank"). Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Foreign currency translation (continued)

The official rates of exchange used for translating foreign currency balances were as follow:

	December 31, 2019	December 31, 2018
1 USD / 1 AZN	1.7000	1.7000
1 EUR / 1 AZN	1.9035	1.9468
1 SDR / 1 AZN	2.3463	2.3573

Changes in accounting policies and disclosures

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 account for most leases under a single on-balance sheet model.

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

The Group chose to adopt IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019 thus not to restate comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019. But as the Group did not have any continuing lease contract as at January 1, 2019, no cumulative effect has been recognized at the date of initial application. 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. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

The adoption IFRS 16 as at January 1, 2019 is as follows:

Assets	
Right-of-use asset	492
Prepayment	(13)
Total assets:	**479**
Liabilities	
Lease liabilities	479
Total liabilities:	**479**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Changes in accounting policies and disclosures (continued)

IFRS 16 Leases (continued)

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

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

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. For all leases of the Group, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9 %.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Based on the foregoing, as at January 1, 2019:

- Right-of-use assets of AZN 492 were recognized.
- Lease liabilities of AZN 479 were recognized.
- Prepayments for previous rent fees of AZN 13 were disposed.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Changes in accounting policies and disclosures (continued)

IFRS 16 Leases (continued)

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

Operating lease commitment disclosed as at December 31, 2018	566
Weighted average incremental borrowings rate as at January 1, 2019	9%
Discounted operating lease commitment at January 1, 2019	**479**

(b) *Summary of new accounting policies under IFRS 16*

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (.e, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

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 or to terminate (e.g, construction of significant leasehold improvements, significant customisation to the leased asset or a change in business strategy).

Amounts recognised statement of financial position and statement of profit or loss.

The Group recognised rent expense from short-term leases of AZN 787 for the year ended December 31, 2019.

Financial assets-Fair value measurement

Depending on their classification financial instruments are carried at fair value, or amortized 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 by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Fair value measurement (continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment loss. Accrued interest includes amortization 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 are not presented separately and are included in the carrying values of related statement of consolidated financial position items.

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.

Financial assets

Initial recognition of financial instruments

Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

Classification of financial instruments

From January 1, 2018 on initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVPL").

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVPL:

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

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Classification of financial instruments (continued)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The reclassification has a prospective effect.

Financial assets impairment – credit loss allowance for ECL

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognized as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortized cost, net of allowance for ECL, are recognized in profit or loss and other changes in carrying value are recognized in OCI as gains less losses on debt instruments at FVOCI.

"Simplified approach" to impairment

IFRS 9 allows entities to apply a 'simplified approach' for trade receivables, contract assets and lease receivables. The simplified approach allows entities to recognize lifetime expected losses on all these assets without the need to identify significant increases in credit risk. Certain accounting policy choices apply:

- For trade receivables and contract assets that do not contain a significant financing component, it is a requirement to recognize a lifetime expected loss allowance (i.e. an entity must always apply the 'simplified approach').
- For other trade receivables, other contract assets, operating lease receivables and finance lease receivables it is an accounting policy choice that can be separately applied for each type of asset (but which applies to all assets of a particular type).

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Presentation of allowance for ECL in the consolidated statement of financial position (continued)

- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognized as part of fair value reserve.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass- through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial liabilities

Other financial liabilities

Other financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Payables

Payables are obligations paid by suppliers in exchange for goods or services. Accounts payable are classified as current liabilities if the repayment obligation is due for one year or less (or no longer than the whole working period).

Payables are stated at amortized cost using the effective interest rate.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Cash and cash equivalents

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

Property, plant and equipment

Property, plant and equipment are stated at cost as described below, less accumulated depreciation and provision for impairment, where required.

The initial cost of an asset comprises its purchase price or construction cost, any cost directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and for qualifying assets, borrowing costs. The assets held under finance lease are also included within property, plant and equipment.

Development of tangible assets

Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and transmission facilities is capitalized within tangible assets according to nature. All minor repair and maintenance costs are expensed as incurred. Cost of replacing major parts components of property, plant and equipment items are capitalized and replaced part is retired.

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

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Property, plant and equipment (continued)

Development of tangible assets (continued)

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

Depreciation

Buildings, facilities, transmission devices are depreciated using straight-line method over the estimated useful lives. Machinery and equipment and vehicles are depreciated using reducing balance method. The reducing balance method of depreciation is calculated by applying the defined depreciation formula based on cost, residual value and useful life of an asset.

The estimated useful lives of the Group's property, plant and equipment are as follows:

Buildings and constructions	20 to 60 years
Facilities and transmission devices	3 to 40 years
Machinery and equipment	3 to 15 years
Vehicles	3 to 10 years
Office equipment	3 to 8 years

Land and assets under construction are not depreciated.

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

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

Inventories

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

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 capitalized as part of the cost of the respective 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.

Borrowing costs for all eligible qualifying assets are capitalized.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include rights, licenses and computer software.

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

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

Impairment of non-financial assets

The Group assesses at each reporting 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. It 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. Where 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. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated income statement in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Impairment of non-financial assets (continued)

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Income taxes

Income taxes have been provided for in consolidated financial statements in accordance with the applicable legislation enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is reflected in the consolidated statement of profit or loss and other comprehensive income.

Current income tax is the amount expected to be paid to or recovered from the state budget through taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Value-added tax

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

VAT payable represents VAT related to sales that is payable to the state budget through tax authorities upon recognition of sales to customers under timing methods envisaged in the legislation, net of VAT on purchases which have been settled at the statement of financial position date.

VAT related to sales which have not been settled at the statement of financial position date (VAT deferral) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The deferred liability related VAT is maintained until the debtor is written off for tax purposes.

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

Provisions for liabilities and charges

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

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Provisions for liabilities and charges (continued)

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

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

Government investments

Government investments are made in the form of cash contributions, transfer of other state-owned entities or transfer of all or part of the Government's share in other entities. Transfer of the state-owned entities to the Group is recognized as contribution through consolidated equity statement in the amount being the fair value of the transferred entity (in case of transfer by the Government of its share in other entities – the transferred share in the fair value of the respective entity).

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of VAT, returns, discounts, and other sales-based taxes, if any, after eliminating sales within the Group.

Revenue from sales of water and sewerage services are recorded on the basis of regular water meter readings (monitored on a monthly basis) and estimates of customer usage from the last meter reading to the end of the reporting period. Water prices and waste water treatment tariffs to the final consumers in the Republic of Azerbaijan are regulated by the Tariff Council of the Republic of Azerbaijan.

Sales of services are recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Expenses

Expenses are presented by function in consolidated statement of profit or loss and other comprehensive income. Categorization of the nature of expenses is based on operational functions of the Group's departments and subsidiaries.

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) are accrued in the year in which the associated services are rendered by the employees of the Group.

Related parties

Related parties are disclosed in accordance with IAS 24 *Related Party Disclosures*.

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of water to customers in the Republic of Azerbaijan at government controlled prices.

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 arms-length basis.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Reclassifications

Certain reclassification has been made to the prior year's statement of cash flow to conform to the current year's presentation. There was no material impact on the Group's results of operations and equity as a result of this reclassification.

	Prior to reclassifications	Reclassifications	After reclassifications
Statement of cash flow for the year ended 31 December 2018			
Trade and other payables	(59,828)	74,537	14,709
Purchase of property, plant and equipment	(45,307)	34,463	(10,844)
Cash inflow from government investments	109,000	(109,000)	–

3. Adoption of new or revised standards and interpretations

In the current year, the Group has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending in December 31, 2019. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

For the preparation of these financial statements, the following amendments to Standards are mandatory for the first time for the financial year beginning January 1, 2019.

Interpretation 23 Uncertainty over Income Tax Treatments

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

• Whether an entity considers uncertain tax treatments separately

• The assumptions an entity makes about the examination of tax treatments by taxation authorities

• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

How an entity considers changes in facts and circumstances The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Fund applies significant judgement in identifying uncertainties over income tax treatments. Since the Fund 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 Fund considered whether it has any uncertain tax positions, particularly those relating to transfer pricing.

The Group's 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 financial statements of the Group

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

3. Adoption of new or revised standards and interpretations (continued)

Prepayment Features with Negative Compensation – Amendments to IFRS 9

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 financial statements of the Fund.

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

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 financial statements as the Fund does not have longterm interests in its associate and joint venture.

Annual Improvements to IFRS Standards 2015-2017 Cycle

IFRS 3 Business Combinations

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

IFRS 11 Joint Arrangements

An entity 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 January 1, 2019, with early application permitted. These amendments had no impact on the financial statements of the Fund as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events. An entity applies the amendments for annual reporting periods beginning on or after January 1, 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 Fund's current practice is in line with these amendments, they had no impact on the financial statements of the Fund.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

3. Adoption of new or revised standards and interpretations (continued)

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. 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 January 1, 2019, with early application permitted. Since the Fund's current practice is in line with these amendments, they had no impact on the financial statements of the Fund.

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

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 financial statements of the Fund as it did not have any plan amendments, curtailments, or settlements during the period.

The following standards and interpretations had been issued but were not mandatory for annual reporting periods ending on December 31, 2019:

Standards and interpretations published but not currently accepted

The Group has not implemented new or amended Standards and Comments, which are published below, but are not mandatory for the annual reporting period ending December 31, 2019

IFRS 17 Insurance Contracts *(Effective date: January 1, 2021 (likely to be extended to January 1, 2022))*

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

3. Adoption of new or revised standards and interpretations (continued)

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Definition of Material – Amendments to IAS 1 and IAS 8 *(Effective date: January 1, 2020)*

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and

- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Definition of a Business – Amendments to IFRS 3 *(Effective date: January 1, 2020)*

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions

Revised Conceptual Framework for Financial Reporting *(Effective date: January 1, 2020)*

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting

- reinstating prudence as a component of neutrality

- defining a reporting entity, which may be a legal entity, or a portion of an entity • revising the definitions of an asset and a liability

- removing the probability threshold for recognition and adding guidance on derecognition • adding guidance on different measurement basis, and

- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

3. Adoption of new or revised standards and interpretations (continued)

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 *(In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method).*

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the nonmonetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

4. Critical accounting estimates and judgments

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 accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumption and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group based its assumptions and estimates on parameters available when consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies.

Judgments that have the most significant effect on the amounts recognized in this consolidated financial statements and estimates that can cause a material adjustment to the carrying amount of assets and liabilities at reporting date include:

Environmental obligations

The Group records a provision in respect of estimated costs of remediation of the damage historically caused to the natural environment by the activities of the Group. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the respective consolidated statement of financial position date based on requirements of the Code of Administrative Offences of the Republic of Azerbaijan in effect and is also subject to changes because of modifications and revisions. Governmental authorities continuously consider applicable regulations and their enforcement. Estimated liability for environmental remediation as of December 31, 2019 and December 31, 2018 amounted nil. Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Useful lives of property, plant and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortization charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold. The useful lives are reviewed at least at each reporting date. Changes in any of the above conditions or estimates may result in adjustments to future depreciation rates.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

4. Critical accounting estimates and judgments (continued)

Deferred income tax asset recognition

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

Current taxes

Azerbaijani tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group may be assessed additional taxes, penalties and interest, which can be significant.

The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at December 31, 2019 and December 31, 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Impairment of non-financial assets

Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Impairment of non-financial assets

Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value-in-use.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows. The Group has been considered as one CGU and impairment was determined on the level of the whole Group. The value of the CGU was calculated by discounting the future cash flows at the rate of 11.13% (December 31, 2018: 14.2%) on pre-tax base and impairment charge of AZN 538,689 (December 31, 2018: AZN 492,876) has been recognized in consolidated statement of profit or loss and other comprehensive income to write-down the book value of certain property, plant and equipment with regard to the functional use of these assets.

The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital ("WACC").

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

4. Critical accounting estimates and judgments (continued)

Impairment of non-financial assets (continued)

In calculating WACC the cost of equity was estimated using peer group data and the cost of debt is based on interest bearing borrowings, the Group is obliged to service. Specific risks are incorporated by applying individual beta factors, market risk and size of the Group. The beta factors are evaluated annually based on publicly available market data. If the estimated WACC used in the calculation had been 1% higher / lower than management's estimate, the aggregate amount of impairment loss would have been AZN 136,529 higher /AZN 483,846 lower (December 31, 2018: AZN 81,837 higher / AZN 108,250 lower, respectively).

Impairment provision for trade receivables

The impairment provision for trade receivables is based on management's assessment of the probability of collection of major individual consumers' accounts receivable. Significant financial difficulties of the consumers, probability that the contract parties will suffer bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. Trade receivables outstanding more than 12 months are generally written off against respective impairment provision.

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Provision for unused vacation

The Group has a policy to settle total amount of payable to individual employee accrued for several years for unused vacations only when the vacation option is utilized by the employee and no reliable basis for estimation of timing of payment is available.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

5. Property, plant and equipment

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

	Land	Buildings and constructions	Facilities	Transmission devices	Machinery and equipment	Vehicles	Stationary and office equipment	Construction in progress	Total
Cost									
At January 1, 2018	**21,663**	**31,795**	**33,991**	**243,049**	**55,270**	**33,599**	**4,890**	**4,000,112**	**4,424,369**
Additions	–	–	47	–	1,506	979	37	699,306	**701,875**
Granted assets	–	196	2,299	1,028	203	144	1	(42)	**3,829**
Transfers	–	9,950	2,212	33,219	7,005	58	53	(52,749)	**(252)**
Disposals	–	–	(2)	(1)	(5)	–	(4)	(546)	**(558)**
At December 31, 2018	**21,663**	**41,941**	**38,547**	**277,295**	**63,979**	**34,780**	**4,977**	**4,646,081**	**5,129,263**
Additions	–	–	49	–	3,129	2,017	105	568,232	**573,532**
Granted assets	–	172	199	675	1,761	276	3	–	**3,086**
Transfers	–	4,709	6,524	83,793	12,244	55	87	(107,809)	**(397)**
Disposals	–	–	–	(1)	(1)	(1)	–	(89)	**(92)**
At December 31, 2019	**21,663**	**46,822**	**45,319**	**361,762**	**81,112**	**37,127**	**5,172**	**5,106,415**	**5,705,392**
Depreciation and impairment									
At January 1, 2018	**(15,524)**	**(23,809)**	**(31,844)**	**(221,171)**	**(54,092)**	**(33,464)**	**(4,753)**	**(3,425,724)**	**(3,810,381)**
Depreciation charge	–	(942)	(709)	(3,656)	(6,218)	(1,137)	(57)	–	**(12,719)**
Impairment charge	–	(6,837)	(2,308)	(19,453)	(234)	–	(13)	(464,017)	**(492,862)**
At December 31,2018	**(15,524)**	**(31,588)**	**(34,861)**	**(244,280)**	**(60,544)**	**(34,601)**	**(4,823)**	**(3,889,741)**	**(4,315,962)**
Depreciation charge	–	(724)	(546)	(5,946)	(14,237)	(2,233)	(85)	–	**(23,771)**
Impairment charge	–	(5,876)	(3,236)	(45,957)	(1,054)	(6)	(21)	(482,407)	**(538,557)**
At December 31, 2019	**(15,524)**	**(38,188)**	**(38,643)**	**(296,183)**	**(75,835)**	**(36,840)**	**(4,929)**	**(4,372,148)**	**(4,878,290)**
Net book value									
At December 31, 2018	**6,139**	**10,353**	**3,686**	**33,015**	**3,435**	**179**	**154**	**756,340**	**813,301**
At December 31, 2019	**6,139**	**8,634**	**6,676**	**65,579**	**5,277**	**287**	**243**	**734,267**	**827,102**

An intangible asset in amount of AZN 397 was put into exploitation from construction in progress during the year 2019 (2018: AZN 252).

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

5. Property, plant and equipment (continued)

Granted assets

During the years ended December 31, 2019 and December 31, 2018 certain assets (transmission devices and other infrastructures, land, buildings, etc.) were contributed to the Group by various governmental organizations. The Group engaged an independent appraiser to determine the fair value of granted assets as of December 31, 2019 and December 31, 2018. Fair value of granted assets was determined in the amount of AZN 3,086 for the year ended December 31, 2019 (December 31, 2018: AZN 3,829) and comprised of government organisations' assets of AZN 2,810 (2018: AZN 3,735) and AZN 276 of commercial organizations' assets (2018: 94). Assets received from governmental organizations were recognized as Government investments in the consolidated financial statements (see Note 12).

Prepayments

Included in construction in progress are prepayments made for construction activities and services that have not been provided yet. The net amounts of such prepayments are AZN 23,893 and AZN 32,420 as at December 31, 2019 and December 31, 2018, respectively.

Capitalization of borrowings costs

Since 2005, the Group incepted several construction projects for building of new water pipelines and reservoirs as well as waste management and sewerage system in Baku city and other regions of the Republic of Azerbaijan. The projects are financed through government investments and loans from international financial organizations. The total amount of borrowing costs capitalized during 2019, by the Group on construction property was AZN 2,583 (December 31, 2018: AZN 2,343).

6. Right of use asset

Movements in the carrying amount of right of use asset was as follows:

	Office area	Total
Cost at January 1, 2019	492	492
Additions	432	432
Depreciation for the year	(178)	(178)
Carrying amount at December 31, 2019	**746**	**746**

7. Taxes receivable

In December 31, 2019 and December 31, 2018 taxes receivable mainly comprised VAT recoverable in the amount of AZN 20,359 (December 31, 2018: AZN 23,105) related to purchases which have not been settled at the end of the year, and thus not claimed in tax declarations and prepayment on construction works which can be claimed only after the vendor performs the associated services.

Taxes receivable is recoverable by means of an offset against tax liabilities or as a direct cash refund from the tax authorities.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

8. Inventories

Inventories comprised the following as at:

	December 31, 2019	December 31, 2018
Materials	5,772	15,269
Goods	4,700	8,312
Goods for sale	2,910	3,175
Spare parts	1,215	808
Raw materials	858	644
Fuel and lubricants	48	24
Total inventories	**15,503**	**28,232**

9. Trade and other receivables

Trade and other receivables comprised the following as at:

	December 31, 2019	December 31, 2018
Receivables from sale of water	85,317	77,876
Less impairment loss provision	(66,943)	(62,561)
Total trade receivables	**18,374**	**15,315**
Other receivables	5,670	1,004
Total trade and other receivables	**24,044**	**16,319**

As of December 31, 2019 trade receivables are mainly represented by receivables for sale of water to non-population and population in the amount of AZN 49,540 and AZN 35,777, respectively (December 31, 2018: AZN 43,175 and AZN 34,701, respectively). General credit terms on sales of water include 30 days settlement requirement after the billing date. Tariffs on sales of water are subject to state regulations and are governed by the Tariff Council of the Republic of Azerbaijan.

Movements on the provision for impairment of trade receivables were as follows:

	2019	2018
At January 1	**62,561**	**58,063**
Receivables written off during the year as uncollectible net of recovery	–	–
Net change in provision (Note 22)	4,382	4,498
At December 31	**66,943**	**62,561**

As at December 31,the ageing analysis of trade and other receivables is as follows:

	Total	<30 days	Past due but not impaired	Individually and collectively impaired
December 31, 2018	**78,880**	16,319	–	62,561
December 31, 2019	**90,987**	24,044	–	66,943

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

10. Cash and cash equivalents and restricted cash

Cash and cash equivalents comprised the following as at:

	December 31, 2019	**December 31, 2018**
Cash in transit	2,269	1,502
Correspondent and settlement accounts	15,688	32,788
Cash on hand	4	10
Other cash equivalents	2	2
Total cash and cash equivalents	**17,963**	**34,302**

Cash and cash equivalents in original currency comprised the following as at:

	December 31, 2019	**December 31, 2018**
AZN dominated bank balances	4,987	34,177
USD dominated bank balances	12,937	86
EUR dominated bank balances	35	29
Other currency dominated bank balances	–	–
Cash on hand	4	10
Total cash and cash equivalents	**17,963**	**34,302**

Restricted cash comprised the following as at:

	December 31, 2019	**December 31, 2018**
VAT deposit account	377	71
Account at the State Treasury	–	–
Designated accounts	2	752
Total restricted cash	**379**	**823**

Account at the State Treasury was originated based on signed order by the Government and is held at the State Treasury of the Republic of Azerbaijan. The Group has no direct control over the account which is mainly used for financing of the Group's construction projects and funded by the Government based on authorized requests placed at the State Treasury. Subject to the State Treasury approval appropriated funds are directly transferred to the vendor's account. The Group treats these contributions as a Government Investment within the Group's equity.

The Government has also established Designated Accounts at commercial banks acceptable to the international financing institutions in accordance with the terms of respective loan agreements for use of funds provided under these loan agreements. Designated Accounts are established, managed, replenished and liquidated in accordance with manuals introduced by the international financing institutions. The Designated Accounts are maintained in foreign currencies and the Group has no direct control over these accounts.

Effective January 1, 2008 the state tax authorities introduced VAT deposit accounts and enforced payments of input and output VAT via these accounts. In order to comply with new tax regulation, the Group has opened a VAT deposit account. In accordance with this regulation, the balance on VAT deposit account may only be withdrawn with a 45 day notice to the tax authorities.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

11. Share capital

Share capital of the Group comprised the following as at:

	December 31, 2019		December 31, 2018	
	Number of shares	**Share capital**	**Number of shares**	**Share capital**
"Azersu" OJSC	20,000,000	400,000	20,000,000	400,000
Subsidiaries				
"Sutikinti" Division	100	1,423	100	1,423
"Sukanal" Scientific Research and Design Institute	–	131	–	131
"Ganja Sukanal" SJSC	383,640	7,673	383,640	7,673
"Aghdash Sukanal" SJSC	–	–	53,568	1,071
"Goychay Sukanal" SJSC	–	–	53,568	1,071
"Sheki Sukanal" SJSC	95,663	1,914	95,663	1,914
"Birleshmish Sukanal" LLC	4,173,128	83,463	4,063,722	81,274

Parent company of the Group, Azersu OJSC, has a legal status of a state enterprise. The Group includes 6 separate legal entities (2018: 8) each possessing their own share capital. As at December 31, 2019 and December 31, 2018 Azersu OJSC had authorized and issued 20,000,000 shares at par AZN 0.02. Azersu OJSC has ultimate control and 100% interest in all of its subsidiaries.

During 2019 the Group recorded additional paid-in capital in the amount of AZN 4,225,307 (December 31, 2018: AZN 444,664) based on value of the completed investment projects accepted by the Government.

12. Government investments

Government investments comprised the following as at:

	December 31, 2019	**December 31, 2018**
Non-financial asset investments	11,125	51,677
Investments financed from the State Budget of the Republic of Azerbaijan	271,822	2,783,876
Investments financed from international financial organizations under the state guarantee	381,110	1,354,603
Total government investments	**664,057**	**4,190,156**

The balance of Government investments comprised funding made from the State Budget to finance various capital and other expenditures of the Group, Government borrowings from international financial institutions and non-financial assets granted to the Group by the Government.

As discussed in Note 5, fair value of non-financial assets granted from the various budget organizations at the date of transition amounted to AZN 2,810 during 2019 (December 31, 2018: AZN 3,735).

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

13. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings comprised the following:

	December 31, 2019	December 31, 2018
Government loans financed by international financial institutions	137,778	152,672
Loans from the Ministry of Finance of the Republic of Azerbaijan	109,259	90,778
Loans from local banks	73	73
Total interest-bearing loans and borrowings	**247,110**	**243,523**

Current portion of loans of the Group were represented by the following financial institutions:

Financial institution	Contractual interest rate	Original currency	Maturity date	December31, 2019	December 31, 2018
World Bank (IDA)	0.75%	SDR	May 2030	7,647	7,683
World Bank (IDA)	0.75%	SDR	November 2037	976	980
KfW	0.75%	EUR	June 2040	917	938
KfW	0.75%	EUR	December 2045	1,693	1,489
Natixis	2.45%	EUR	September 2030	4,164	4,259
ADB	2.5%	SDR	November 2036	3,809	3,384
International Bank of Azerbaijan	1%	AZN	July 2025	73	73
Total short-term loans and current portion of long-term loans				**19,279**	**18,806**

Non-current portion of loans of the Group were represented by the following financial institutions:

Financial institution	Contractual interest rate	Original currency	Maturity date	December 31, 2019	December 31, 2018
World Bank (IDA)	0.75%	SDR	May 2030	13,887	23,133
World Bank (IDA)	0.75%	SDR	November 2037	1,852	2,985
KfW	0.75%	EUR	June 2040	18,043	19,427
KfW	0.75%	EUR	December 2045	37,697	38,715
Natixis	2.45%	EUR	September 2030	35,419	40,268
ADB	2.5%	SDR	November 2036	11,674	9,411
The Ministry of Finance	0%	AZN	December 2027	11,228	11,117
The Ministry of Finance	0%	USD	December 2027	27,605	27,330
The Ministry of Finance	0%	USD	August 2028	16,633	16,458
The Ministry of Finance	0%	USD	August 2030	17,574	17,400
The Ministry of Finance	0%	USD	August 2031	18,647	18,473
The Ministry of Finance	0%	USD	August 2027	17,572	–
Total long-term loans				**227,831**	**224,717**

Reconciliation of loans of the Group was represented as the following:

			Non-cash reconciliation		
	December 31, 2018	Cash reconciliation	Paid by Government	Forex and others	December 31, 2019
Interest-bearing loans and borrowings	243,523	–	(18,630)	22,217	247,110
Total loans	**243,523**	–	**(18,630)**	**22,217**	**247,110**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

13. Interest-bearing loans and borrowings (continued)

			Non-cash reconciliation		
	December 31, 2017	**Cash reconciliation**	**Paid by Government**	**Forex and others**	**December 31, 2018**
Interest-bearing loans and borrowings	238,805	–	(19,362)	24,080	243,523
Total loans	**238,805**	–	**(19,362)**	**24,080**	**243,523**

Government loans financed by international financial institutions

Loans from international financial institutions represent lending for the financing of projects related to development and improvement of water supply system of the Republic of Azerbaijan lent directly to the Government. The Government in its turn transferred related rights and obligations on these loans to the Group by means of re-financing agreement between the Government and the Group under the similar terms and conditions.

Loans from World Bank (IDA)

On 6 July 1995 the Government entered into loan agreement with International Development Association ("IDA") that is included in the World Bank group, for the amount of SDR 38,800 thousand (AZN 91,036). On 30 June 2003 the Government signed another loan agreement with IDA for the amount of SDR 9,673 thousand (AZN 22,696). The annual effective interest rate under these loan agreements is 0.75% and they are repayable until 2030 and 2037, respectively. These loans were lent for the financing of the project "Greater Baku Water Supply Rehabilitation Project".

Loans from KfW

On 25 September 2006 two loans were lent to the Government by Kreditanstalt für Wiederaufbau ("KfW") German government-owned development bank, in the amount of EUR 14,827 thousand (AZN 28,223) and EUR 26,350 thousand (AZN 50,157), at 0.75% and 0.75% annual effective interest rate and repayable until 2040 and 2045, respectively. The loans were lent for the financing of the project "Open Program Municipal infrastructure". As at December 31, 2019 total drawn amount under the loans amounted EUR 14,827 thousand (AZN 28,223) and EUR 24,126 thousand (AZN 45,924), respectively (December 31, 2018: EUR 14,827 thousand (AZN 28,865) and EUR 23,228 thousand (AZN 45,220), respectively).

Loan from Natixis

On 30 September 2006 the loan was lent to the Government by the Natixis, a French corporate and investment bank on behalf of the Government of the Republic of France, in the amount of EUR 35,000 thousand (AZN 66,623) at 2.45% annual effective interest rate and repayable until 2030. The loan was lent for the financing of the project "Reconstruction of Hovsan waste management system, Zygh pump station".

Loan from Asian Development Bank

On 29 November 2005 the loan was lent to the Government by the Asian Development Bank ("ADB"), in the amount of SDR 5,428 thousand (AZN 12,736) at 2.5% annual effective interest rate and repayable until 2036. The loan was lent for the financing of the project "Urban Water Supply and Sanitation Project".

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

13. Interest-bearing loans and borrowings (continued)

Loans from the Ministry of Finance of the Republic of Azerbaijan

On November 29, 2016 the Group received two interest free loans from the Ministry of Finance in amount of USD 17,382 thousand (AZN 29,549) and AZN 11,943. According to the contracts repayment of loans will start in 2024 in 8 equal instalments twice a year till December 2027.

On June 7, 2017 the Group received interest free loan from the Ministry of Finance in amount of USD 11,183 thousand (AZN 19,011). According to the contract repayment of loans will start in February 2025 in 8 equal instalments twice a year till August 2028.

At the end of 2017 the Ministry of Finance has granted interest free loan to the Group in amount of USD 11,280 thousand (AZN 19,176). According to the contract repayment of loans will start in February 2027 in 8 equal instalments twice a year till August 2030.

At the end of 2018 the Ministry of Finance has granted interest free loan to the Group in amount of USD 11,390 thousand (AZN 19,363). According to the contract repayment of loans will start in February 2028 in 8 equal instalments twice a year till August 2031.

At the end of 2019 the Group received two interest free loans from the Ministry of Finance in amount of USD 10,959 thousand (AZN 18,630). According to the contracts repayment of loans will start in February 2024 in 8 equal instalments twice a year till August 2027.

Loan from International Bank of Azerbaijan

On July 15, 2016 the Group has signed a loan agreement with International Bank of Azerbaijan under the government guarantee in the amount of AZN 239,720. As of December 31, 2016, the Group utilized full loan amount for financing of the ongoing infrastructure projects. The interest rate under the loan agreement was 1% per annum. As at December 31, 2019 an unpaid accrued interest on the loan is AZN 73.

14. Provisions

Provisions comprised the following as at:

	December 31, 2019	**December 31, 2018**
Unused vacation	9,655	7,446
Provision for court cases	1,302	503
Other	118	107
Total provisions	**11,075**	**8,056**

Provision for court cases

Provision for court cases represents factual and probable estimated claims against the Group which were given rise due to ongoing construction projects mainly.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

15. Taxes and penalties payable other than income tax, net

Taxes and penalties payable other than income tax, net comprised the following as at:

	December 31, 2019	December 31, 2018
VAT	1,118	(534)
Economic and financial sanctions	(278)	393
Property tax	2,597	1,741
Withholding tax	68	300
Land tax	(1,329)	55
Personal Income tax	1,091	683
Road tax	–	3
Total taxes and penalties other than income tax, net	**3,267**	**2,641**

Economic and financial sanctions comprised fines and penalties for delayed submission of statutory financial reports, mistakes during statutory reporting and other sanctions.

16. Trade and other payables

Trade and other payables comprised the following as at:

	December 31, 2019	December 31, 2018
Construction related payables	182,431	280,337
Trade payables	93,296	92,541
Accrued liabilities	22,195	42,640
Other payables	6,053	1,486
Total financial payables	**303,975**	**417,004**
Payable to Social Security Fund	1,715	11,994
Payable to employees	8,029	5,074
Total trade and other payables	**313,719**	**434,072**

The Group's total payables mainly represented by payables for construction services and payables for material, transportation, water-supply, energy and utilities provided by vendors to the Group.

17. Lease liabilities

Movements in the lease liabilities was as follows:

Total discounted lease liabilities at January 1, 2019	**479**
Additions	425
Paid lease instalments	(190)
Interest expense	54
Total discounted lease liabilities at December 31, 2019	**768**
Current portion	187
Non-current portion	581
Total discounted lease liabilities at December 31, 2019	**768**
Current portion	246
Non-current portion	732
Total undiscounted lease liabilities as at December 31, 2019	**978**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

18. Balances and transactions with related parties

Key management compensation

Key management of the Group includes the Chairman of the Group and its six deputies. The Chairman is appointed by the President of the Republic of Azerbaijan, deputies are appointed by the Chairman and approved by Deputy Prime Minister of the Republic of Azerbaijan. Key management individuals are entitled to salaries and benefits provided by the Group in accordance with the approved payroll matrix. During 2019 compensation of key management personnel totaled to AZN 372 (December 31, 2018: AZN 362).

Significant Transactions

All transactions with the Government are disclosed in Note 11, Note 12, Note 13 and Note 26.

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

The Group had the following outstanding balances with related parties:

		Government and entities under government control	
	Note	December 31, 2019	December 31, 2018
Gross amounts of trade receivables		38,755	27,388
Impairment provisions for trade receivables		(24,232)	(19,012)
Other receivables		376	325
Taxes receivables	7	20,359	23,105
Cash and cash equivalents		253	343
Restricted cash	10	379	823
Long-term borrowings	13	(227,831)	(224,717)
Short-term borrowings		(19,279)	(18,806)
Trade and other payables		(40,992)	(43,089)
Taxes payables		(5,516)	(4,941)
Advances received		(2,695)	(3,217)
Deferred revenue		(122)	(57)

The transactions with related parties for the year ended December 31, 2019 and December 31,2018 were as follows:

		Government and entities under government control	
	Note	Year ended December 31, 2019	Year ended December 31, 2018
Sales revenue		38,149	35,899
Energy costs	22	(47,130)	(47,202)
Security costs	22	(4,997)	(3,851)
Water purchase		(38)	(42)
Other expenses		(5,911)	(6,416)
Communication expenses		(151)	(92)

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions except for Government loans lent at a below market rate. Outstanding balances at the yearend are unsecured and interest free except for borrowings. There have been no guarantees provided or received for any related party receivables or payables.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

19. Financial risk management

Financial risk factors

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

Currency risk

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

The following tables demonstrates the sensitivity to a reasonably possible change in the USD, EUR, SDR exchange rates, with all other variables held constant, of the Group's post-tax profit. There is no material impact on the Group's equity:

December 31, 2019	Change in rates	Effect on post-tax profit
USD/AZN	10%/(-10%)	(7,132)/7,132
EUR/AZN	10%/(-10%)	(10,874)/10,874
SDR/AZN	1%/(-1%)	(319)/319

December 31, 2018	Change in rates	Effect on post-tax profit
USD/AZN	10%/(-10%)	(16,831)/16,831
EUR/AZN	10%/(-10%)	(15,755)/15,755
SDR/AZN	1%/(-1%)	(476)/476

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

Credit risk and concentration of credit risk

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

The Group's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and trade and other receivables.

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

	December 31, 2019	December 31, 2018
Cash and cash equivalents	17,959	34,292
Trade and other receivables	24,044	16,319
Total maximum exposure to credit risk	**42,003**	**50,611**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

19. Financial risk management (continued)

Credit risk and concentration of credit risk (continued)

The Group places its cash with reputable financial institutions in the Republic of Azerbaijan. The Group continually monitors the status of the banks where its accounts are maintained. The Group's credit risk arising from its trade receivables balance with private sector and other third-party unrelated customers is mitigated by continuous monitoring of their creditworthiness. The requirement for an impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. Management of the Group believes that the Group is not exposed to high credit risk as the impairment provision has already been accrued in the accompanying consolidated financial statements for all debtors which are not expected to be recovered in a future.

Liquidity risk

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

Prudent liquidity risk management includes maintaining sufficient working capital and the ability to close out market positions. As discussed in Note 2 the Group continues to remain dependent on its ability to obtain sufficient funding from the Government to sustain operations and complete its current investment projects. Refer to the respective note for management's action points.

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

The maturity analysis of financial liabilities is as follows:

At December 31, 2019	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables	273,288	–	30,687	–	**303,975**
Interest-bearing loans and borrowings	792	20,365	52,569	188,170	**261,896**
Total undiscounted financial liabilities	**274,080**	**20,365**	**83,256**	**188,170**	**565,871**

At December 31, 2018	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables	355,586	–	61,418	–	**417,004**
Interest-bearing loans and borrowings	834	17,641	61,692	177,628	**257,795**
Total undiscounted financial liabilities	**356,420**	**17,641**	**123,110**	**177,628**	**674,799**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

19. Financial risk management (continued)

Capital management

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

The Group is 100% owned by the Government of Azerbaijan Republic and periodically receives funds in form of Government investment for implementation of construction projects. Having considered that contributions and additions in capital depend on government decisions and there are no requirements and limits set on level of the capital, no specific capital risk management policies were developed by the Group.

Fair value of financial instruments

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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 the 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.

As at December 31, 2019	Carrying value	Fair value
Cash and cash equivalents	17,963	17,963
Trade and other financial receivables	24,044	24,044
Long-term trade and other financial payables	(30,687)	(30,687)
Short-term trade and other financial payables	(283,032)	(283,032)
Long-term bank loans	(227,831)	(227,831)
Short-term bank loans	(19,279)	(19,279)

As at December 31, 2018	Carrying value	Fair value
Cash and cash equivalents	34,292	34,292
Trade and other financial receivables	16,319	16,319
Long-term trade and other financial payables	(61,418)	(61,418)
Short-term trade and other financial payables	(372,654)	(372,654)
Long-term bank loans	(224,717)	(224,717)
Short-term bank loans	(18,806)	(18,806)

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

i. Short-term financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

ii. Long-term borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and the risk characteristics of the financed project.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

19. Financial risk management (continued)

Fair value of financial instruments (continued)

The following table sets out the fair values of financial instruments not measured at fair value by the end of December 31, 2019 and analyzes them by the level in the fair value hierarchy into which each fair value measurement is categorized below:

			Fair value measurement using			
	Financial instrument classification	**Date of valuation**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets for which fair values are disclosed						
Cash and cash equivalents	Amortized cost	December 31, 2019	17,963	–	–	**17,963**
Trade and other receivables	Amortized cost	December 31, 2019	–	–	24,044	**24,044**
Liabilities for which fair values are disclosed						
Long-term trade and other financial payables	Amortized cost	December 31, 2019	–	–	(30,687)	**(30,687)**
Short-term trade and other financial payables	Amortized cost	December 31, 2019	–	–	(283,032)	**(283,032)**
Long-term bank loans	Amortized cost	December 31, 2019	–	–	(227,831)	**(227,831)**
Short-term bank loans	Amortized cost	December 31, 2019	–	–	(19,279)	**(19,279)**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

19. Financial risk management (continued)

Fair value of financial instruments (continued)

The following table sets out the fair values of financial instruments not measured at fair value by the end of December 31, 2018 and analyzes them by the level in the fair value hierarchy into which each fair value measurement is categorized below:

			Fair value measurement using			
	Financial instrument classification	**Date of valuation**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets for which fair values are disclosed						
Cash and cash equivalents	Amortized cost	December 31, 2018	34,302	–	–	**34,302**
Trade and other receivables	Amortized cost	December 31, 2018	–	–	16,319	**16,319**
Liabilities for which fair values are disclosed						
Long-term trade and other financial payables	Amortized cost	December 31, 2018	–	–	(61,418)	**(61,418)**
Short-term trade and other financial payables	Amortized cost	December 31, 2018	–	–	(372,654)	**(372,654)**
Long-term bank loans	Amortized cost	December 31, 2018	–	–	(224,717)	**(224,717)**
Short-term bank loans	Amortized cost	December 31, 2018	–	–	(18,806)	**(18,806)**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

20. Sales revenue and deferred revenue

Sales revenue comprised the following:

	Year ended December 31, 2019	Year ended December 31, 2018
Sales of water	128,643	115,549
Sewerage services	57,251	54,397
Other sales revenue	7,142	6,769
Total sales revenue	**193,036**	**176,715**

Revenue from other sales mainly comprised the sales of water-meters and scientific research and design projects.

Deferred revenue is mainly comprised of advances received from customers for provision of water and sewerage services in the amount of AZN 8,180 as of December 31, 2019 (December 31, 2018: 7,891). Moreover, this deferred revenue balance includes advance payments received for technical terms to be provided to the customers and amounted to AZN 1,475 as at December 31, 2019 (December 31, 2018: 1,213).

21. Other income

Other income comprised the following:

	Year ended December 31, 2019	Year ended December 31, 2018
Gain on written-off for payables	–	1,571
Gain on decrease of allowance for advance payments	–	262
Gain on reversal of provision for court cases	35	3,160
Gain on debts written-off to Tax Authorities	33	891
Gain on debts written-off to State Social Protection Fund	–	16,554
Other	12,004	4,493
Total other income	**12,072**	**26,300**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

22. Expenses

For the years ended December 31, 2019 and December 31, 2018, cost of sales, administrative expenses, selling and distribution expenses and other operating expenses comprised the following:

2019	Cost of sales	Administrative expenses	Selling and distribution expenses	Other operating expenses	Total
Impairment of property, plant and equipment	–	–	–	538,557	**538,557**
Impairment of intangible assets	–	–	–	132	**132**
Wages, salaries and social security costs	34,976	10,308	58,698	–	**103,982**
Depreciation of property, plant and equipment	9,900	255	13,616	–	**23,771**
Amortization cost	15	54	–	–	**69**
Training, education and business development costs	–	12,598	–	–	**12,598**
Energy expenses	37,460	721	8,949	–	**47,130**
Raw materials and consumables used	8,314	196	1,737	–	**10,247**
Taxes other than income tax	5,088	286	2,782	–	**8,156**
Repairs and maintenance expenses	2,595	109	4,613	–	**7,317**
Security expenses	4,435	309	253	–	**4,997**
Impairment of trade and other receivables	–	–	4,382	–	**4,382**
Change in other provisions and liabilities	1,332	1,193	529	–	**3,043**
Fuel expenses	2,224	-	658	–	**2,882**
Bank and collecting expenses	51	2,338	484	–	**2,873**
Economic sanctions and other penalties	55	732	1,808	–	**2,595**
Business trip expenses	673	349	266	–	**1,288**
Rent expenses	198	2	584	–	**784**
Insurance expenses	158	305	315	–	**778**
Communication expenses	39	235	169	–	**443**
Depreciation of right of use asset	–	–	178	–	**178**
Loss on disposal property, plant and equipment	–	91	1	–	**92**
Loss on disposal of non-current assets	–	7	–	–	**7**
Other expenses	859	1,264	3,093	–	**5,216**
	108,372	**31,352**	**103,115**	**538,689**	**781,528**

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

22. Expenses (continued)

2018	Cost of sales	Administrative expenses	Selling and distribution expenses	Other operating expenses	Total
Impairment of property, plant and equipment	–	–	–	498,862	**498,862**
Impairment of intangible assets	–	–	–	14	**14**
Wages, salaries and social security costs	29,368	8,546	44,821	–	**82,735**
Depreciation of property, plant and equipment	6,620	245	5,854	–	**12,719**
Amortization costs	13	28	–	–	**41**
Energy expenses	37,491	820	8,891	–	**47,202**
Raw materials and consumables used	5,596	134	1,551	–	**7,281**
Repairs and maintenance expenses	1,444	114	2,151	–	**3,709**
Training, education and business development costs	–	3,425	–	–	**3,425**
Economic sanctions and other penalties	384	527	2,385	–	**3,296**
Security expenses	3,658	180	13	–	**3,851**
Fuel expenses	2,136	7	664	–	**2,807**
Taxes other than income tax	4,709	414	2,327	–	**7,450**
Change in other provisions and liabilities	–	1,079	37	–	**1,116**
Impairment of trade and other receivables	–	–	4,498	–	**4,498**
Bank and collecting expenses	59	2,134	325	–	**2,518**
Business trip expenses	534	307	301	–	**1,142**
Rent expenses	202	–	739	–	**941**
Communication expenses	36	244	316	–	**596**
Insurance expenses	271	9	64	–	**344**
Loss on disposal of property, plant and equipment	85	423	50	–	**558**
Other expenses	331	4,353	1,115	–	**5,799**
	92,937	**22,989**	**76,102**	**492,876**	**684,904**

During 2019 the Group incurred net foreign exchange loss in the amount of AZN 13,325 (2018 net foreign exchange gain in the amount of AZN 5,007) due to devaluation of Azerbaijani manat against US dollar and other major currencies.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

23. Income tax

Income tax expense comprised the following:

	Year ended December 31, 2019	Year ended December 31, 2018
Current income tax expense	(249)	(276)
Deferred income tax expense	273	(793)
Income tax gain/(expense) for the year	**24**	**(1,069)**

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

	December 31, 2017	In the statement of profit or loss and other comprehensive income	December 31, 2018	In the statement of profit or loss and other comprehensive income	December 31, 2019
Deductible temporary differences					
Property, plant and equipment	693	(792)	(99)	273	174
Inventories	18	(1)	17	4	21
Trade and other receivable	-	-	-	(2)	(2)
Trade and other payables	(3)	1	(2)	(3)	(5)
Provisions	5	(1)	4	1	5
Deferred income tax (liability)/asset	**713**	**(793)**	**(80)**	**273**	**193**

At December 31, 2019 cumulative balance of unrecognized deferred tax asset from carry forward losses and other temporary differences amounted 1,240,704 (December 31, 2018: AZN 1,161,719).

A reconciliation between tax expense and the product of accounting loss multiplied by the Group's domestic tax rate for the year ended December 31, 2019 and December 31, 2018 is as follows:

	2019	2018
Loss before tax	**(592,512)**	**(479,132)**
Theoretical tax benefit at statutory rate of 20 per cent	**118,502**	**95,826**
Tax effect of non-deductible expenses	(26)	(138)
Unrecognized deferred tax asset	(118,452)	(96,757)
Income tax expense for the year	**24**	**(1,069)**

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.

The Group's several subsidiaries have tax losses, which in accordance with Azerbaijani tax legislation, can be carried forward for five years. However, as these losses relate to subsidiaries that have a history of losses, deferred tax assets have not been recognized as these losses may not be used to offset taxable profits elsewhere in the Group. The Group evaluated and concluded that it is not probable that deferred tax assets on balances of loss-making subsidiaries will be recovered in foreseeable future and recognized full allowance for deferred tax asset on these entities.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

24. Significant non-cash investing and financing activities

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated cash flows statement are as follows:

	2019	2018
Construction works financed by the Government	438,389	459,125
Repayment of Group's loans by the Ministry of Finance	18,630	19,362
Property, plant and equipment granted to the Group by the Government (Note 5)	2,810	3,735

As discussed in Note 10 the Group's account at the State Treasury is restricted by financing of the Group's construction activities by the Government. The total amount of funds appropriated by the Government for the payment of the Group's construction activities during the years ended December 31, 2019 and December 31, 2018 amounted AZN 438,389 and AZN 459,125 respectively.

25. Contingences, commitments and operating risks

Operating environment

The Group's operations are primarily located in Azerbaijan and consequently is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market.

As an oil exporting country the economy of Azerbaijan is heavily dependent on oil being the largest contributor to the state budget both in volume and value terms, therefore the price of oil is of critical importance for the economy and abrupt changes in the price of oil have wide ranging effects on the macro economic factors of the economy like depreciation in currency, slower economic and industrial expansions and instability of monetary ramifications.

From the mid of June 2014 the oil prices fell instantaneously and this sharp decline resulted in decrease in revenue of oil industry, reduction in fiscal revenues, reduction in production of oil and shutting of their progressive operations.

Continuously low level of the global oil prices as well as the binary devaluation of the Azerbaijani Manat incurred in 2015 have recently increased the level of uncertainty in the business environment.

Since January 12, 2017 Azerbaijan's central bank has dropped the 4% exchange rate corridor it imposed on commercial banks in order to allow the currency to float freely and during 2018 the value of manat began to stabilize.

During 2019, CBAR reviewed the interest corridor eight times. It reduced the discount rate from 9.75 to 7.5%, the upper limit of the interest corridor from 11.75% to 9.25%, and the lower limit from 7.75% to 5.75%.

The assets of State Oil Fund of Azerbaijan (SOFAZ) exceeded $40 billion for the first time, which prompted an increase in Azerbaijan's currency reserves to over $50 billion after a four-year pause.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

25. Contingences, commitments and operating risks (continued)

Operating environment (continued)

Upon the President's decree 'On Additional Measures to Solve Problematic Loans of individuals in the Republic of Azerbaijan,' the state repaid a part of the loans below $10,000, which rose due to devaluation. The process covered 900,000 people. Of them, 600,000 were offered to receive state compensation, and 300,000 - to sign a new loan agreement in the national currency with an annual interest rate of 1% for five years. AZN 645 million was paid to citizens in compensation within a year. Loan of AZN 242 million of 123,000 borrowers was restructured in a concessional conditions. AZN 205 million interests and penalty interests were written off, credits of 42,000 borrowers were liquidated.

2019 witnessed the minimum salary and pensions for the first time exceeding the subsistence minimum. In line with the order signed by President the lower limit of the wages rose 92 % and the lower end of pensions 72 %. The growth in salaries covered 1 million people in the state sector and 350,000 people in the private sector. Meanwhile, as many as 750,000 people were embraced by the growth in pensions.

In 2019, Azerbaijan ranked 34th in the World Bank's Doing Business Report and became one of the top 20 reformers in the world. Positive effects of those reforms on the economy of the country are expected.

The consolidated financial statements reflect Management's assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Group. Management is unable to reliably estimate the effects on the Group's operations due to the expected changes in macro-economic factors and response of corollary measure thereon, but believes it is taking all the necessary measures to support the sustainability and development of the Company's business in the current circumstances.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates internal professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Tax legislation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances such reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise stated)

25. Contingences, commitments and operating risks (continued)

Environmental matters

The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no liabilities for environmental damage.

26. Events after the reporting date

Following significant events took place subsequent to December 31, 2019:

According to the Order No: 1752 of the President of the Republic of Azerbaijan dated December 30, 2019, the funds of AZN 212,676 from the budget are considered to be allocated to the Group for improving the public supply of drinking water, reconstruction of water supply and sewerage system, construction of meters and improvement of the ecological situation in the state.

According to the Official Letter of the Ministry of Finance of the Republic of Azerbaijan dated September 10, 2019, No. 0303055094908, it was decided to allocate a subsidy amounting to AZN 38,000 from 2020 state budget to finance operating expenses of the Group.

On March 11, 2020 the World Health organization has announced global coronavirus (COVID-19) pandemic which has a significant impact on the global economy, as well as the Group's revenue.

Taking into account the experience of different countries in the fight against the COVID-19 pandemic, in order to prevent the spread of infection in the country, a special quarantine regime was declared in the Republic of Azerbaijan from March 24, 2020 until August 1, 2020 by the Task Force under the

Cabinet of Ministers of the Republic of Azerbaijan. The activity of enterprises in other areas, except for entities of state importance and life support, as well as the areas of work and services necessary for the life and activity of people, was suspended until the specified date.

On March 31, 2020, a proposal program was submitted to minimize losses to entrepreneurs and to provide state support to entrepreneurship under the Decree of the President of the Republic of Azerbaijan, "On a number of measures to reduce the negative impact of the Coronavirus (COVID-19) pandemic and consequently, sharp fluctuations in world energy, stock markets on the economy of the Republic of Azerbaijan as well as on macroeconomic stability, employment and entrepreneurship in the country ".

Although it is already observed that the current situation has led to stagnation in the Group's activities, accurate predictions about how long it will last and about its subsequent effects cannot be made. Therefore, the management is currently unable to assess the financial impact of the abovementioned pandemic.

As an oil exporting country the economy of Azerbaijan is heavily dependent on oil being the largest contributor to the state budget both in volume and value terms, therefore the price of oil is of critical importance for the economy and abrupt changes in the price of oil have wide ranging effects on the macro economic factors of the economy like depreciation in currency, slower economic and industrial expansions and instability of monetary ramifications.

Management is unable to reliably estimate the effects on the Group's operations due to the expected changes in macro-economic factors and response of corollary measure thereon.