

# **“AZVIRT” LIMITED LIABILITY COMPANY**

**The International Financial Reporting Standards  
Consolidated Financial Statements and  
Independent Auditors' Report**  
For the Year Ended December 31, 2021

# “AZVIRT” LIMITED LIABILITY COMPANY

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**STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021**

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The following statement is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of “AzVirt” Limited Liability Company (the “Company”) and its subsidiaries (collectively referred to as the “Group”).

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at December 31, 2021, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

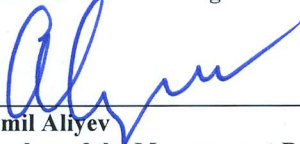
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2021 were authorized for issue on August 8, 2022 by the Management of the Group.

**On behalf of the Management:**



**Kamil Aliyev**  
**Member of the Management Board**

August 8, 2022  
Baku, the Republic of Azerbaijan



**Allahveran Huseynov**  
**Head of Financial Analysis Department**

August 8, 2022  
Baku, the Republic of Azerbaijan

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders and the Management of "AzVirt" Limited Liability Company:

### ***Opinion***

We have audited the consolidated financial statements of "AzVirt" Limited Liability Company (the "Company") and its subsidiaries (together refer to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at June 30, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of the 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 have no realistic alternative but to do so.

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

### *Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditors' 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; and
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

*Baker Tilly Azerbaijan*

August 8, 2022

Baku, the Republic of Azerbaijan

# “AZVIRT” LIMITED LIABILITY COMPANY

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2021

(In thousands of Azerbaijani Manats)

|   | Notes      | December 31,<br>2021 | December 31,<br>2020<br>(restated/<br>reclassified) |
|---|------------|----------------------|---|
| <b>ASSETS</b>                                 |            |                      |   |
| <b>Non-current assets:</b>                    |            |                      |   |
| Property, plant and equipment                 | 7          | 75,621               | 60,989  |
| Prepayments for property, plant and equipment |            | 165                  | 862   |
| Intangible assets                             | 8          | 40                   | 52  |
| Right-of-use assets                           | 9          | 15,554               | 12,110  |
| Refundable deposits with the customers        | 10, 36     | 26,203               | 13,900  |
| Restricted deposits                           | 11         | 58,545               | -   |
| Deferred income tax assets                    | 32         | -                    | 724   |
| Other assets                                  | 19, 34, 36 | 529                  | 1,149   |
| <b>Total non-current assets</b>               |            | <b>176,657</b>       | <b>89,786</b>                                       |
| <b>Current assets:</b>                        |            |                      |   |
| Inventories                                   | 12         | 27,281               | 16,080  |
| Prepayment for inventories and other expenses | 13         | 16,765               | 22,096  |
| Loans issued                                  | 14, 34, 36 | 3,058                | 3,265   |
| Advance paid to subcontractors                | 15, 34     | 41,504               | 17,983  |
| Refundable deposits with the customers        | 10, 36     | -                    | 468   |
| Input VAT                                     |            | 6,155                | 10,264  |
| Contract assets                               | 16, 36     | 17,398               | 15,914  |
| Trade and other receivables                   | 17, 34, 36 | 68,638               | 86,282  |
| Cash and cash equivalents                     | 18, 36     | 27,270               | 22,496  |
| Other assets                                  | 19, 34, 36 | 2,465                | 518   |
| <b>Total current assets</b>                   |            | <b>210,534</b>       | <b>195,366</b>                                      |
| <b>TOTAL ASSETS</b>                           |            | <b>387,191</b>       | <b>285,152</b>                                      |
| <b>LIABILITIES AND EQUITY</b>                 |            |                      |   |
| <b>LIABILITIES:</b>                           |            |                      |   |
| <b>Non-current liabilities:</b>               |            |                      |   |
| Lease liability                               | 21, 36     | 13,796               | 2,142   |
| Borrowings                                    | 23, 36     | 20,401               | 14,571  |
| Trade and other payables                      | 24, 34, 36 | 8,414                | -   |
| Advances from customers                       | 22, 34     | 81,220               | 24,782  |
| Deferred income tax liabilities               | 32         | 646                  | -   |
| <b>Total non-current liabilities</b>          |            | <b>124,477</b>       | <b>41,495</b>                                       |
| <b>Current liabilities:</b>                   |            |                      |   |
| Borrowings                                    | 23, 36     | 28,095               | 5,198   |
| Lease liability                               | 21, 36     | 596                  | 3,017   |
| Advances from customers                       | 21, 34     | 58,164               | 94,460  |
| Deposits from subcontractors                  | 20         | 6,513                | 3,792   |
| Trade and other payables                      | 24, 34, 36 | 87,495               | 60,856  |
| Taxes payable                                 |            | 2,522                | 3,831   |
| Dividend payable                              | 26         | 12,000               | -   |
| Payable to employees                          | 34, 36     | 5,240                | 3,016   |
| Other liabilities                             | 25, 36     | 3,052                | 1,030   |
| <b>Total current liabilities</b>              |            | <b>203,677</b>       | <b>175,200</b>                                      |
| <b>Total liabilities</b>                      |            | <b>328,154</b>       | <b>216,695</b>                                      |

**“AZVIRT” LIMITED LIABILITY COMPANY**

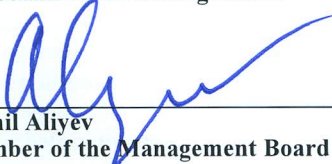
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani Manats)*

|                                     | Notes | December 31,<br>2021 | December 31,<br>2020<br>(restated/<br>reclassified) |
|-------------------------------------|-------|----------------------|---|
| <b>EQUITY:</b>                      |       |                      |   |
| Share capital                       | 26    | 129                  | 129   |
| Retained earnings                   |       | 53,511               | 58,984  |
| Other reserves                      |       | 5,128                | 7,384   |
| Cumulative translation reserve      |       | 269                  | 1,960   |
| <b>Total equity</b>                 |       | <b>59,037</b>        | <b>68,457</b>                                       |
| <b>TOTAL LIABILITIES AND EQUITY</b> |       | <b>387,191</b>       | <b>285,152</b>                                      |

**On behalf of the Management:**

  
**Kamil Aliyev**  
**Member of the Management Board**



  
**Allahveran Huseynov**  
**Head of Financial Analysis Department**

August 8, 2022  
 Baku, the Republic of Azerbaijan

August 8, 2022  
 Baku, the Republic of Azerbaijan

The notes on pages 10-75 form an integral part of these consolidated financial statements.

# “AZVIRT” LIMITED LIABILITY COMPANY


## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2021

(In thousands of Azerbaijani manats)

|   | Notes  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020<br>(restated/<br>reclassified) |
|---|--------|------------------------------------|---|
| Construction revenue  | 27, 34 | 563,201                            | 354,756   |
| Costs of construction   | 28, 34 | <u>(513,858)</u>                   | <u>(321,555)</u>  |
| <b>Gross profit</b>   |        | <b><u>49,343</u></b>               | <b><u>33,201</u></b>  |
| General and administrative expenses                                     | 29, 34 | (23,956)                           | (20,997)  |
| Expected credit loss charge for financial assets                        | 34     | (7,609)                            | (1,645)   |
| Impairment charge for non-financial assets                              | 34     | (1,674)                            | -   |
| Rental income   |        | 157                                | 1,295   |
| Other income  | 31, 34 | 2,173                              | 2,080   |
| Other expenses  | 30     | <u>(1,024)</u>                     | <u>(719)</u>  |
| <b>Operating profit</b>   |        | <b><u>17,410</u></b>               | <b><u>13,215</u></b>  |
| Finance income  |        | 187                                | 18  |
| Finance costs   | 21, 23 | (8,251)                            | (5,548)   |
| Foreign exchange gain/(loss), net                                       |        | 1,917                              | (2,937)   |
| Loss on disposal of property, plant and equipment                       |        | <u>(435)</u>                       | <u>(271)</u>  |
| <b>Profit before income tax</b>   |        | <b><u>10,828</u></b>               | <b><u>4,477</u></b>   |
| Income tax expense  | 32     | <u>(4,301)</u>                     | <u>(1,414)</u>  |
| <b>NET PROFIT FOR THE YEAR</b>  |        | <b><u>6,527</u></b>                | <b><u>3,063</u></b>   |
| <b>OTHER COMPREHENSIVE INCOME</b>                                       |        |                                    |   |
| <b>Items that will be reclassified subsequently to profit and loss:</b> |        |                                    |   |
| Exchange differences on translation of foreign operations               |        | <u>(1,691)</u>                     | <u>701</u>  |
| <b>Other comprehensive (loss)/income for the year</b>                   |        | <b><u>(1,691)</u></b>              | <b><u>701</u></b>   |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                          |        | <b><u>4,836</u></b>                | <b><u>3,764</u></b>   |

On behalf of the Management:

  
Kamil Aliyev  
Member of the Management Board

  
Allahveran Huseynov  
Head of Financial Analysis Department

August 8, 2022  
Baku, the Republic of Azerbaijan

August 8, 2022  
Baku, the Republic of Azerbaijan

The notes on pages 10-75 form an integral part of these consolidated financial statements.



## “AZVIRT” LIMITED LIABILITY COMPANY

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021

(In thousands of Azerbaijani manats)

|   | Notes | Share capital | Retained earnings | Other reserves | Cumulative translation reserve | Total         |
|---|-------|---------------|-------------------|----------------|--------------------------------|---------------|
| <b>January 1, 2020</b>                  |       | <u>129</u>    | <u>55,921</u>     | <u>8,491</u>   | <u>1,259</u>                   | <u>65,800</u> |
| Net profit for the year                 |       | -             | 3,063             | -              | -                              | 3,063         |
| Other comprehensive income for the year |       | -             | -                 | -              | 701                            | 701           |
| Withdrawal of funds by the shareholders |       | -             | -                 | (1,107)        | -                              | (1,107)       |
| <b>December 31, 2020</b>                |       | <u>129</u>    | <u>58,984</u>     | <u>7,384</u>   | <u>1,960</u>                   | <u>68,457</u> |
| Net profit for the year                 |       | -             | 6,527             | -              | -                              | 6,527         |
| Other comprehensive loss for the year   |       | -             | -                 | -              | (1,691)                        | (1,691)       |
| Dividends declared                      | 26    | -             | (12,000)          | -              | -                              | (12,000)      |
| Withdrawal of funds by the shareholders |       | -             | -                 | (2,256)        | -                              | (2,256)       |
| <b>December 31, 2021</b>                |       | <u>129</u>    | <u>53,511</u>     | <u>5,128</u>   | <u>269</u>                     | <u>59,037</u> |

On behalf of the Management:

  
Kamil Aliyev  
Member of the Management Board

  
Allahveran Huseynov  
Head of Financial Analysis Department

August 8, 2022  
Baku, the Republic of Azerbaijan

August 8, 2022  
Baku, the Republic of Azerbaijan

The notes on pages 10-75 form an integral part of these consolidated financial statements.

**“AZVIRT” LIMITED LIABILITY COMPANY**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2021**  
*(In thousands of Azerbaijani manats)*

|  | Notes  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020<br>(restated/<br>reclassified) |
|--|--------|------------------------------------|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |        |                                    |   |
| Profit before income tax   |        | 10,828                             | 4,477   |
| Adjustments for non-cash items:  |        |                                    |   |
| Depreciation of property, plant and equipment  | 7      | 10,821                             | 8,333   |
| Amortization of intangible assets  | 8      | 16                                 | 17  |
| Amortization of right-of-use assets  | 9      | 1,669                              | 1,730   |
| Finance costs  | 21, 23 | 8,251                              | 5,548   |
| Finance income   |        | (187)                              | (18)  |
| Foreign exchange translation (gain)/loss, net  |        | (1,917)                            | 2,937   |
| Expected credit loss charge for financial assets   |        | 7,609                              | 1,645   |
| Impairment charge for non-financial assets   |        | 1,674                              | -   |
| Loss on inventory write down   | 30     | 578                                | 77  |
| Loss on disposal of property, plant and equipment  |        | 435                                | 271   |
| <b>Cash flows from operating activities before changes in operating assets and liabilities</b> |        | <b>39,777</b>                      | <b>25,017</b>   |
| <b>Changes in operating assets and liabilities</b>   |        |                                    |   |
| (Increase)/decrease in operating assets:   |        |                                    |   |
| Input VAT  |        | 3,884                              | (3,980)   |
| Prepaid taxes  |        | -                                  | 909   |
| Prepayment for inventories and other expenses  |        | (798)                              | 2,446   |
| Refundable deposits with the customers   |        | (11,690)                           | (11,641)  |
| Inventories  |        | (19,302)                           | (13,191)  |
| Advance paid to subcontractors   |        | (12,574)                           | (8,895)   |
| Trade and other receivables  |        | 12,475                             | (30,112)  |
| Contract assets  |        | (1,237)                            | (9,305)   |
| Restricted deposits  |        | (61,088)                           | -   |
| Other assets   |        | (1,402)                            | 1,259   |
| Increase/(decrease) in operating liabilities:  |        |                                    |   |
| Deposits from subcontractors   |        | 3,074                              | 2,967   |
| Advances from customers  |        | 27,154                             | 38,960  |
| Trade and other payables   |        | 27,105                             | 34,281  |
| Taxes payable  |        | (251)                              | (306)   |
| Payable to employees   |        | 2,298                              | 738   |
| Other liabilities  |        | 2,086                              | 306   |
| <b>Cash inflow from operating activities before income tax paid</b>                            |        | <b>9,511</b>                       | <b>29,453</b>   |
| Income tax paid  |        | (3,862)                            | (2,328)   |
| <b>Net cash inflow from operating activities</b>   |        | <b>5,649</b>                       | <b>27,125</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |        |                                    |   |
| Payments for property, plant and equipment   |        | (12,386)                           | (13,633)  |
| Proceeds from disposal of property and equipment   |        | 4,729                              | 2,821   |
| Proceeds from collection of loans issued   |        | 325                                | 199   |
| Loans disbursed to legal entities  |        | (1,820)                            | (224)   |
| Interest received on loans issued  |        | 187                                | 17  |
| Payments for intangible assets   |        | (1)                                | (3)   |
| <b>Net cash outflow from investing activities</b>  |        | <b>(8,966)</b>                     | <b>(10,823)</b>   |

**“AZVIRT” LIMITED LIABILITY COMPANY**

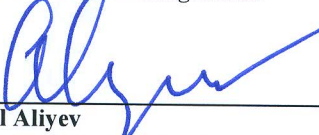
**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**  
*(In thousands of Azerbaijani manats)*

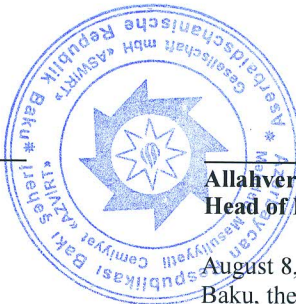
|   | Notes | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020<br>(restated/<br>reclassified) |
|---|-------|------------------------------------|---|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |       |                                    |   |
| Repayment of lease liability  | 21    | (10,747)                           | (4,960)   |
| Proceeds from borrowings  | 23    | 110,796                            | 39,903  |
| Repayment of principal on borrowings  | 23    | (81,283)                           | (33,233)  |
| Finance cost paid on borrowings   | 23    | (7,490)                            | (4,189)   |
| Withdrawal of funds by the shareholders   |       | (2,167)                            | (1,214)   |
|   |       | <u>9,109</u>                       | <u>(3,693)</u>  |
| Effect of exchange rate changes on the balance of cash held in foreign currencies |       | (1,018)                            | 677   |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   |       | 4,774                              | 13,286  |
| CASH AND CASH EQUIVALENTS, <i>at the beginning of year</i>                        | 18    | <u>22,496</u>                      | <u>9,210</u>  |
| CASH AND CASH EQUIVALENTS, <i>at the end of year</i>                              | 18    | <u><u>27,270</u></u>               | <u><u>22,496</u></u>  |

Refer to Notes 21 and 23 for financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows.

Investing transactions that did not require the use of cash and cash equivalents during the year ended December 31, 2021 amounted to AZN 1,477 thousand and were excluded from the statement of cash flows (2020: AZN 599 thousand).

**On behalf of the Management:**

  
Kamil Aliyev  
Member of the Management Board



  
Allahveran Huseynov  
Head of Financial Analysis Department

August 8, 2022  
Baku, the Republic of Azerbaijan

August 8, 2022  
Baku, the Republic of Azerbaijan

The notes on pages 10-75 form an integral part of these consolidated financial statements.

# “AZVIRT” LIMITED LIABILITY COMPANY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

(In thousands of Azerbaijani manats)

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### 1. GROUP INFORMATION

#### Organization and its principal activities

“AzVirt” Limited Liability Company (“the Company”) was established on June 29, 1995 in the Republic of Azerbaijan with the participation of Azerbaijan Airlines State Concern, the Executive Power of Baku and Virtgen International GmbH (Germany) with ownership distribution of 11%, 40% and 49%, respectively, as Azerbaijan-Germany Joint Venture and subsequently on May 5, 2004 the company was reregistered as “AzVirt” Limited Liability Company following the privatization. The Company started its business by constructing urban roads in Baku and eventually transformed itself to an international company providing full service for motorway and airport infrastructure projects. The Company is a limited liability company and was set up in accordance with the regulations of the Republic of Azerbaijan.

The Company is presented by the following subsidiaries, branches and representative offices (together referred as the “Group”):

- “AzVirt Ogranak Beograd” is a representative office registered and located in Belgrade, the Republic of Serbia;
- “AzVirt Balkan Construction” LLC is a 100% owned subsidiary registered and located in Belgrade, the Republic of Serbia;
- “AzVirt Grandja d.o.o. Sarajevo” LLC is a 100% owned subsidiary registered and located in Sarajevo, the Federation of Bosnia and Herzegovina;
- “AzVirt Podruznica Sarajevo” LLC is a representative office registered and located in Sarajevo, the Federation of Bosnia and Herzegovina;
- “AZROM International Construction” is a representative office registered and located in Bucharest, Romania;
- “AzVirt Latvia” is a representative office registered and located in Riga, the Republic of Latvia;
- “AzVirt Astana” is a representative office registered and located in Astana, the Republic of Kazakhstan;
- “AzVirt Kyrgyzstan” is a representative office registered and located in Bishkek, the Republic of Kyrgyzstan;
- “AzVirt Ukraine” is a representative office registered and located in Kyiv, the Republic of Ukraine.

On May 24, 2021 the Group sold all its shares in subsidiary “AzVirt Ukraine” LLC.

#### Legal address of the Company

The Company’s registered address is 26 B Bashir Bunyadov Street, Baku AZ1040, the Republic of Azerbaijan.

#### Shareholders of the Group

As at December 31, 2021 and 2020 the Group had four shareholders:

| Shareholders  | December 31,<br>2021,% | December 31,<br>2020,% |
|---|------------------------|------------------------|
| Martin Beteiligungs GmbH & Co KG, registered in Germany | 30.00                  | 30.00                  |
| Falcom Holding s.a.r.l, registered in Luxembourg        | 25.00                  | 25.00                  |
| Mr. Elnur Aliyev  | 25.00                  | 25.00                  |
| Walz GmbH & Co KG, registered in Germany                | 20.00                  | 20.00                  |
| <b>Total</b>  | <b>100.00</b>          | <b>100.00</b>          |

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### **Operating environment of the Group**

The Group's mainly conducts its' operation in the Republic of Azerbaijan, the Republic of Serbia, the Republic of Kyrgyzstan, the Republic of Ukraine and the Federation of Bosnia and Herzegovina.

#### ***The Republic of Azerbaijan***

The Company's operations are conducted in the Republic of Azerbaijan.

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

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

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

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

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

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of Azerbaijan's economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani Manat. Although the economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices, during recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce its dependence on oil and gas sector. GDP in Azerbaijan was USD 54.62 billion during the year 2021, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, the GDP in Azerbaijan is projected to trend around USD 54.73 billion in 2022 and USD 55.98 billion in 2023, according to our econometric models.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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

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

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

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Bank's operations and consequently what effect, if any, they could have on the financial position of the Company. The management is currently performing sensitivity analyses under different oil price scenarios and elaborating relevant action plans for maintaining the sustainability of the business.

#### ***The Republic of Serbia***

The Serbian economy recovered well from a mild recession in 2020 that was related to the impacts of COVID-19. The economy grew by 7.4% in 2021, mainly driven by private consumption, thanks to a strong increase in salary levels and consumer loans. The economic recovery in 2021 was broad based except for the agriculture sector, where output declined by 5.4% in real terms.

Poverty (defined as income under US\$5.5/day in revised 2011 purchasing power parity) is estimated to have declined from 10.2% in 2020 to 9.8% in 2021. The unemployment rate shrank to 9.8% in the fourth quarter of 2021 from 10.5% in the third quarter. Wages continued to increase in 2021 by as much as 9.6% in nominal terms.

The consolidated fiscal deficit decreased significantly in 2021 to an estimated 4.1% of GDP from 8.0% in 2020. Public debt at end December 2021 stood at 57.1% of GDP.

Inflation has been gradually accelerating since the summer of 2021, and the consumer price index reached 8.8% (year-on-year) in February 2022 compared to 1.2% in February 2021. Food inflation has increased in Serbia more than in any other EU country, affecting most the poorest segments of the population. Household energy tariffs in Serbia are regulated and were kept unchanged despite rising energy costs. The current account deficit increased to an estimated 4.4% of GDP for 2021 from 4.1% in 2020.

The Serbian economy was projected to grow at around 4 - 4.5% annually. However, the war in Ukraine and resulting sanctions imposed on Russia will have an impact on Serbia's exports, FDI, remittances, and tourism revenues. As such, economic growth for 2022 has been revised downward to 3.2%. Over the medium term, the economy is expected to grow steadily at around 3% annually.

The ongoing crisis in the domestic energy sector emphasized the importance of the improved management of state-owned enterprises (SOEs). Looking forward, contingent liabilities could affect public finances in Serbia, which points to the need to complete the reforms undertaken to date to make SOEs financially sound and viable.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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Poverty reduction is expected to stagnate in 2022. The unfolding war in Ukraine poses a significant downside risk to household welfare in Serbia. Although the Serbian economy is expected to continue to grow, rising inflation will limit the purchasing power of citizens. Rising energy prices, if passed onto household energy tariffs, would disproportionately affect the poor.

#### ***The Republic of Kyrgyzstan***

Emerging market of the Kyrgyz Republic is subject to more risks than developed markets, including economic, political and social, and legal and legislative risks. As the experience from the past shows, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in countries and the countries' economies in general.

Laws and regulations affecting businesses in the Kyrgyz Republic continue to change rapidly. Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal difficulties leading to the challenges faced by the Company. The future economic direction of the Kyrgyz Republic is largely dependent on economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The COVID-19 outbreak has developed rapidly in 2020 with a significant impact on businesses and the population. Measures taken to contain the virus have affected economic activity, which in turn has implications on the financial statements of the Company. Measures to prevent transmission of the virus include limiting the movement of people, restricting flights and other travel, temporarily closing businesses and schools, and cancelling events.

It will also begin to affect supply chains and the production of goods throughout the Kyrgyz Republic, lead to decline of economic activity, reduced demand for many goods and services, including electricity consumption. The Government of the Kyrgyz Republic announced an emergency situation in the largest cities and some regions of the Kyrgyz Republic. This situation might affect the financial position and performance of the Company for the year ended December 31, 2021.

#### ***The Republic of Ukraine***

During the last years, the Ukrainian economy was showing signs of stabilization and growth after a sharp decrease in 2014-2016. After recovering during 2016-2019, in 2020 Ukraine's economy was negatively affected by the global economic crisis caused by the COVID-19 pandemic and this effect continued to exist during 2021. A period of supercharged growth is just starting, and it is showing up in surging consumer spending and in an increasing shortage of skilled workers.

Another positive externality of the unexpected surge of foreign trade was the generous cash flow of budgetary revenues and enhanced ability of the government to stimulate investment and consumer demand. Generous remittance inflow from Ukrainian labor migrants (~\$15 billion in 2021) contributed to the record high GDP in dollar terms as it boosted domestic consumption. Hence the increase of retail trade turnover by 11.2% in January – November 2021 compared to the same period of 2020.

Instead of 5 – 5.2% GDP growth, the Ukrainian economy was expected to see less than 3% economic growth. It is not enough to compensate for the 2020 recession when the national economy shrank by 4% of GDP.

The 2021 Ukraine GDP estimates vary from \$181 billion (October, IMF) to \$202 billion (Ukrainian Economic Outlook, December). It is up from \$155 billion in 2020. This is quite impressive but still a far cry even from the middle-income counties of the European Union. The International Monetary Fund estimated GDP per capita in Ukraine in 2021 at \$4,384. It is the lowest indicator in Europe.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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Moldova’s GDP per capita is \$4,791 (9.3% higher), in Russia it is \$11,273 (2.6 times higher), in Belarus \$7,032 (60.4% higher). Ukraine is just 35.7% of the world average which is \$12,293.

Despite the deterioration of the economic situation in Ukraine, including due to COVID-19, slight economic growth led to the appreciation of the Ukrainian hryvnia against foreign currencies in 2021, as of December 31, 2021 the official UAH-USD exchange rate was 27.287 hryvnia for 1 US dollar (2020: 28.2746 hryvnia).

In 2021, Ukraine faced significant internal and external public debt repayments, which required mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets.

The events which led to the annexation of Crimea by the Russian Federation and the conflict in the east of Ukraine have not been resolved to date. Despite the declaration of a ceasefire, clashes in certain areas of the Luhansk and Donetsk regions continue in 2021, which caused a new escalation of the armed conflict in 2022. The development of the military conflict in Ukraine, as well as its possible consequences for Ukraine’s economy, is difficult to predict currently.

Despite certain improvements in 2020-2021, the final resolution and the ongoing effects of the political issues, coronavirus pandemic and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Group’s business.

#### ***The Federation of Bosnia and Herzegovina***

In Bosnia and Herzegovina, according to the latest projections, real GDP has grown by almost 6%. The real sector of the economy was characterized by strong growth in industrial production, which was significantly above the pre-pandemic level in 2021. The labour market recorded an increase in the number of employees, nominal wages and productivity.

The year 2021 was marked by a strong recovery of economic activity and an extraordinary inflationary shock. Real GDP growth was partly caused by the base effect as well. Due to unusually strong inflationary pressures in the second half of the year, which were further intensified in early 2022, it is certain that the Central Bank of Bosnia and Herzegovina nowcast of economic activity in the medium term will be revised downwards in the spring projections. The real sector of the economy was characterized by strong growth in industrial production, which was significantly above the pre-pandemic level in 2021. In the reporting year, works in the construction industry were intensified, primarily in building construction.

During 2021, there was a recovery in lending activity, but due to extremely strong lending risks in some market segments, credit growth is still not at the pre-pandemic level, especially in the non-financial corporations sector. In almost all market segments, interest rates fell, both in the credit market and in the market of deposits, on newly contracted loans, and new term deposits. According to the Central Bank of Bosnia and Herzegovina projection from November 2021, nominal GDP in 2021 was estimated at KM 37.681 billion. At the annual level, the projected real GDP growth rate was 5.8%, which is a lower rate compared to real GDP growth in the first three quarters according to official data from the Agency for Statistics of Bosnia and Herzegovina. According to official statistics, in the first three quarters of 2021, the most significant contribution to economic activity was through Wholesale and retail trade (42.77% of total annual growth in real gross added value) and Manufacturing (18.31% of total annual increase in real gross added value).

In 2021, the recorded inflation was 2.0% (the average for twelve months of 2021 compared to the average for twelve months of 2020), resulting from positive contributions of almost all categories of the consumer basket, with the prices of food and beverages and transport particularly standing out.



## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

### **Going concern**

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. Management views the Group as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the countries where the Group operates.

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

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

### **Other bases of presentation criteria**

These consolidated financial statements are presented in thousands of Azerbaijani Manats (“AZN”), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention.

The Group maintains its accounting records in accordance with the laws of the respective countries where it operates. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

The principal accounting policies are set out below:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Group and its subsidiaries (entities controlled by the Group). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

#### **Changes in the Group’s ownership interests in existing subsidiaries**

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 “Financial Instruments” or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

#### **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 “Share-based Payment at the acquisition date”; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard”.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit and loss accounts as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 "Financial Instruments", or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognized in consolidated profit and loss accounts.

When a business combination is achieved in stages, the Group previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit and loss accounts. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit and loss accounts where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

If a parent loses control of a subsidiary, the parent derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position. A loss of control means that a parent no longer has control over its subsidiary i.e. does not control an investee when it is exposed, or does not have rights to variable returns from its involvement with the investee and does not have the ability to affect those returns through its power over the investee.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

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#### Property, plant and equipment

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

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

#### Depreciation

Items of property, plant and equipment are generally depreciated on the straight line method to allocate their cost to their residual values over their estimated useful lives:

|                         |                      |
|-------------------------|----------------------|
| Buildings               | 2%                   |
| Plant and equipment     | 4%                   |
| Machinery and equipment | 10%                  |
| Computers and equipment | 20%                  |
| Furniture and fixtures  | 20%                  |
| Vehicles                | 20%                  |
| Intangible assets       | 10%                  |
| Leasehold improvements  | based on lease terms |
| Right of use assets     | based on lease terms |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of 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. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The residual value, the useful lives and depreciation method are reviewed at each financial year-end. The effect of any changes from previous estimates is accounted for prospectively as a change in an accounting estimate.

The gain or loss arising on sale or disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

#### Useful lives of property, plant and equipment and intangible assets

Items of property, plant and equipment and intangible assets owned by the Group are depreciated using the straight-line method over their useful lives, which are calculated in accordance with business plans and operating calculations of the Group's management with respect to those assets.

The estimated useful life and residual value of non-current assets are influenced by the rate of exploitation of assets, servicing technologies, changes in legislation, unforeseen operational circumstances. The Group's management periodically reviews the applicable useful lives. This analysis is based on the current technical condition of assets and the expected period in which they will generate economic benefits to the Group.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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Any of the above factors may affect the future rates of depreciation, as well as carrying and residual value of property, plant and equipment and intangible assets.

#### **Impairment of property, plant and equipment and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the Group's borrowing rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss accounts, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is earned at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **Prepayments for property, plant and equipment**

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

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

#### **Refundable deposits with the customers**

Refundable deposits with the customers are carried at amortized cost using the effective interest method.

#### **Inventories**

Inventory is stated at the lower of cost or net realisable value. The cost of inventory is determined on the “average cost” basis and includes all costs in bringing the inventory to its present location and condition.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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Cost includes direct material, labour and allocable material and manufacturing overheads. Costs of production in-process and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads.

Net realisable value represents the estimated selling price for inventory less estimated costs to completion and selling costs. Where appropriate, an allowance for obsolete and slow-moving inventory is recognized. The impairment charged to reduce the carrying amount of inventory to their net realisable value and an allowance for obsolete and slow-moving inventory is included in the consolidated statement of profit or loss and other comprehensive income as other expenses.

#### **Loans issued**

Loans issued are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans issued into one of the following measurement categories:

- AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and
- FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

#### **Financial instruments – key measurement terms**

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

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

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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

*The effective interest method* is a method of allocating the 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 gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit-impaired (“POCI”) at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

#### **Financial assets – initial recognition**

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for 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. After the initial recognition, an ECL allowance is recognized for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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.

#### **Financial assets – classification and subsequent measurement – measurement categories**

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group’s business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

#### **Financial assets – classification and subsequent measurement – business model**

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group’s objective is: (i) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows”), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of “other” business model and measured at FVTPL.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

#### **Financial assets – classification and subsequent measurement – cash flow characteristics**

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest (“SPPI”).

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

#### **Financial assets – reclassification**

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

#### **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, for contract assets. The Group measures ECL and recognizes impairment losses on financial and contract assets 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.

#### **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.

#### **Financial assets – derecognition**

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the 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 additional restrictions on the sale.



## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### **Financial assets – modification**

If a renegotiation or other modification of the contractual cash flows of financial asset results in derecognition under IFRS 9, the revised instrument is treated as a new instrument. The impairment model would then apply to the new instrument as normal. If a renegotiation or other modification of the contractual cash flows of a financial asset does not result in derecognition, the entity recalculates the gross carrying amount of the financial asset (i.e. amortised cost amount before adjusting for any loss allowance). This is done by discounting the new expected contractual cash flows (post-modification) at the original effective interest rate and recognising any resulting modification gain or loss in profit or loss. From this date, the entity assesses whether the credit risk of the financial instrument has increased significantly since initial recognition of the instrument by comparing the credit risk at the reporting date (under modified terms) to that at initial recognition (under original, unmodified terms)

#### **Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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.

#### **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. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### **Trade and other receivables**

Trade and other receivables are carried at amortized cost using the effective interest method.

#### **Contract assets**

Contract assets represent the Group’s right to consideration for services provided to customers for which the Group’s right remains conditional on something other than the passage of time. Contract assets are trade and other receivables balances under long-term contracts as work is performed and therefore a contract asset is recognised over the period in which the performance obligation is fulfilled. This represents the Group’s right to consideration for the services transferred to date. Amounts are generally reclassified to trade and other receivables when these have been invoiced to a customer.

#### **Financial liabilities and equity instruments**

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

#### ***Equity instruments***

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

#### ***Financial liabilities – measurement categories***

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognized by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

#### ***Financial liabilities – derecognition***

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

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Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch-up method, with any gain or loss recognized in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

#### ***Financial liabilities designated at FVTPL***

The Group may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

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

Financial assets and liabilities are offset and the net amount is 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 realise 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) in the event of default and (iii) in the event of insolvency or bankruptcy.

#### **Borrowings**

Borrowings are carried at amortized cost using the effective interest method. Finance costs on borrowings to finance the construction of property and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

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

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

#### **Leases**

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

#### **The Group as a lessee**

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### **Right-of-use assets**

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term.

If the ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

#### **Lease liabilities**

At the commencement date of the lease, the Group recognizes 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 the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because 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 re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

#### **Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

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When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **Taxation**

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

#### ***Current tax***

##### *The Republic of Azerbaijan*

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

##### *The Republic of Serbia*

Resident companies are subject to the rate of 15% on their worldwide income if they are incorporated or their central management and control actually exercised in the Republic of Serbia. Non-resident companies are subject to the mentioned rate if their income is derived from the Republic of Serbia.

##### *The Republic of Kyrgyzstan*

Pursuant to the Tax Code, resident entities are subject to a corporate income tax, called the 'profit tax', on their aggregate annual income earned worldwide. Non-resident legal entities carrying out business activities through a permanent establishment (PE) in Kyrgyzstan are subject to profit tax on the income attributed to the activities of that PE.

Profit tax is calculated at a rate of 10% of aggregate annual income less allowed deductions.

##### *The Republic of Ukraine*

Profit tax applies to taxable profits earned by resident entities in Ukraine and abroad and non-residents with a PE in Ukraine. Resident entities are taxed on their worldwide income. Non-resident entities are taxed on their Ukrainian-source income.

Ukraine's standard profit tax rate is 18%. Withholding tax (WHT), at a rate of 15%, applies to the majority of income payments for non-residents, unless an exemption is given under a double taxation treaty.

##### *The Federation of Bosnia and Herzegovina*

Non-resident companies are taxed at the standard corporate income tax rate, but only on their Bosnia-sourced income. Standard profit tax rate is 10%. Capital gains are taxed as profit at the standard corporate income tax rate of 10%.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### ***Deferred tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

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

The countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of general and administrative expenses in the consolidated statement of comprehensive income.

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

##### ***The Republic of Azerbaijan***

The difference of output VAT and claimable input VAT is payable to the state budget within 20 days following the reporting month. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis.

VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

##### ***The Republic of Serbia***

The supplies of goods and services and imports of goods are subject to output VAT generally calculated at 20% of the selling prices with the lower rate of 10%. VAT taxpayers are legal entities and entrepreneurs with a turnover in excess of RSD 8,000 thousand in the preceding 12 months.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### *The Republic of Kyrgyzstan*

As part of the gradual incorporation of Kyrgyzstan into the Eurasian Economic Union and the harmonisation of tax legislation between the member countries, the VAT part of the Tax Code has been amended. VAT is assessed on taxable supply and taxable imports. Input VAT assessed on purchases used for business purposes is generally offset against output VAT on taxable supplies. The VAT rate is 12%. Certain supplies are eligible for zero-rate VAT; there are also VAT-exempt turnovers (see below).

All taxpayers registered for VAT purposes are required to charge VAT on their taxable supply and to calculate and report their VAT liabilities. The threshold for obligatory registration as a VAT payer has been increased to 8 million Kyrgyzstani som (KGS). Even if an entity is not required to register for VAT purposes, it may still do so voluntarily by submitting an application to the appropriate tax committee.

#### *The Republic of Ukraine*

There are three VAT rates: 20%, 7%, and 0%. The rate of 20% applies to almost all transactions subject to VAT except specific transactions subject to 7% and 0% VAT. The reduced rate of 7% applies to supply and import of qualifying medicines and specific medical goods, as well as medicines, medical goods, and medical equipment for use in clinical trials.

The 0% VAT rate applies to the export of goods. The 0% rate also applies to the supply of international transport services (confirmed by a single international shipping document), toll manufacturing services (if the finished goods are then re-exported from Ukraine), and certain other services.

#### *The Federation of Bosnia and Herzegovina*

The standard VAT rate is 17%. There are no reduced rates. Value-added tax exemption with input VAT recovery (zero VAT rate) generally applies to export and related services.

Value-added tax exemptions (no input VAT recovery) include inter alia, financial services, medical services, services and deliveries of goods performed by social welfare organizations, and so on.

#### **Land tax**

##### *The Republic of Azerbaijan*

Owners and users of land in the Republic of Azerbaijan are subject to land tax at varying rates. The rate of tax varying from AZN 0.06 up to AZN 20 depends on the type of land, i.e. agricultural, industrial, construction, communication, trading or residential land, as well as the location of the land.

The reporting period is a calendar year. For legal entities owning or using the land the deadline for tax filing is May 15 of each year, while the tax should be paid in equal installments no later than August 15 and November 15.

##### *The Republic of Kyrgyzstan*

Land tax is paid quarterly by legal entities on the area of owned land. The basic rates are provided in the Tax Code, depending on the location and purposes of the land. The basic rates may range from KGS 0.9 to KGS 2.9 per square metre.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

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#### *The Republic of Ukraine*

Land tax is a local tax and is assessed annually for the following year, paid monthly in equal instalments by the owners or users of the land. The rate of land tax depends on the category, location, and the existence of a state valuation for each particular land plot.

#### *The Federation of Bosnia and Herzegovina*

There is no land tax in the Federation of Bosnia and Herzegovina.

#### **Property tax**

##### *The Republic of Azerbaijan*

Except for cases when the property has been insured at a value exceeding its residual value and the property tax is then calculated on the market value, the taxable base for resident legal entities and non-resident legal entities with a permanent establishment is the average annual residual value of their fixed assets. Thus, an average annual residual value of fixed assets owned by such legal entities is subject to a property tax at the rate of 1%. At the same time, the taxable base in respect of resident and non-resident individuals comprises of buildings and their parts, as well as resident individuals' water and air transportation means, where the property tax rate varies depending on the type of asset owned.

The reporting period is a calendar year. Legal entities, owning the fixed assets, have to file the tax return no later than March 31 of the year following the reporting period. The property taxpayer legal entities remit the tax by way of advances (20% of the last year's property tax) by the 15th of the second month of each quarter with the final balancing payment due no later than the filing deadline mentioned above.

The Republic of Azerbaijan also has various other taxes, which are assessed on the Group's activities. These taxes are included in the consolidated statement of comprehensive income.

Taxes, other than on income, are recorded within general and administrative expenses.

##### *The Republic of Serbia*

Property tax paid on ownership rights over immovable property and on usage rights over construction land in the Republic of Serbia. Tax base equals the market value of the property. Taxpayers that are required and maintained records self-assess are subject to the rate of 0.4% on a quarterly basis and taxpayers that are not required and maintained records are subject to the rate of 0.4% - 2% on a quarterly basis.

##### *The Republic of Kyrgyzstan*

Property tax is a local tax payable quarterly by legal entities owning transport vehicles and immovable property in Kyrgyzstan, including apartment houses, apartments, boarding houses, holiday inns, sanatoria, resorts, production, administrative, industrial, and other buildings or facilities. Certain real estate may not be subject to this tax according to special lists approved by the government.

In respect of immovable property, the tax rate is established by the city or local authorities at a rate not to exceed 0.8% of the taxable base, except for apartment houses and apartments designated solely for residence, for which the rate may not exceed 0.35% of the taxable base. Property tax rate for transport vehicles is 0.3%-0.9%.



## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)** *(In thousands of Azerbaijani manats)*

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#### *The Republic of Ukraine*

Owners of residential and non-residential property in Ukraine (both individuals and legal entities, including non-residents) are subject to local real estate tax (RET). The tax base is determined based on the size of the living space of a real estate asset. The RET rates are set by the local government but cannot exceed 1.5% of the minimal salary as of 1 January of the reporting year per square metre (for 2020, the maximum is around UAH 70.85 per square metre).

#### *The Federation of Bosnia and Herzegovina*

The acquisition of real estate in the Federation of Bosnia and Herzegovina is subject to a real estate transfer tax levied at the cantonal level. Real estate sales tax in the Federation of Bosnia and Herzegovina is 5% in all cantons. Either the buyer or the seller may be responsible for payment of the tax, depending on the specific legislation in the particular canton. The tax base for real estate tax purposes is the estimated market value of the property. This tax is paid for the sale of land and used real estate. The acquisition of newly built real estate is taxed at a VAT rate of 17%.

Property taxation is not regulated at the entity level in FBiH, but is regulated by laws in each of the ten cantons. According to cantonal laws, this tax applies to business premises that are leased, residential buildings or apartments that are leased, garages that are leased, parking spaces that are leased, buildings or apartments for vacation and recreation and similar assets. Property tax is paid annually per square meter.

#### **Employee benefits**

Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

#### **Share capital**

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Contribution or withdrawal of funds by the shareholders other than share capital are recognized in other reserves.

#### *Contingent liabilities and assets*

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

#### **Dividends**

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

# “AZVIRT” LIMITED LIABILITY COMPANY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

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### Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Loans between the Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in a foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

The results and financial position of each entity in the Group (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- a) Assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
- b) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- c) Components of equity are translated at the historic rate; and
- d) All resulting exchange differences are recognized in other comprehensive income.

When control over a foreign operation is lost, the previously recognized exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal.

The exchange rates at the year-end used by the Group in the preparation of the consolidated financial statements are as follows:

|                               | December 31,<br>2021 | December 31,<br>2020 |
|-------------------------------|----------------------|----------------------|
| USD/AZN at the reporting date | 1.7000               | 1.7000               |
| EUR/AZN at the reporting date | 1.9265               | 2.0890               |
| RSD/AZN at the reporting date | 0.0163               | 0.0178               |
| KGS/AZN at the reporting date | 0.0201               | 0.0202               |
| UAH/AZN at the reporting date | 0.0625               | 0.0603               |
| BAM/AZN at the reporting date | 0.9801               | 1.0670               |

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transactions first qualify for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the date of initial transactions. Non-monetary items measured at fair value on a foreign currency are translated using exchange rates at the date when 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 the gain or loss on the change in fair value of the items (translation differences on items whose fair value or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### *Contract Revenue*

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. In accordance with IFRS 15, a five-step model is as follows:

- Step 1: Identify the contract with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract;
- Step 5: Recognize revenue when the entity satisfies a performance obligation.

Revenue from contracts with customers is recognized as or when the Group satisfies a performance obligation by the construction contract. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes.

Construction revenue includes the initial amount agreed in the contract plus any variations in construction work and changes, to the extent that it is probable, will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss using the percentage of completion method. The percentage of completion is assessed by reference to the proportion of the actual costs incurred to date compared to the estimated total costs at the end of each reporting period for each contract. Revenue and contract cost estimates are revised on an ongoing basis as changes in price and in the scope of each contract are made. Any changes made to the contract scope are reflected in the percentage of completion of applicable contracts in the same period as the change in estimate occurs.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized to the extent of contract costs incurred where it is probable they will be recovered. Cash received in advance of revenue being recognized on contracts is classified as deferred or unearned revenue. Costs incurred and estimated profits on contracts in progress in excess of amounts billed are reflected as unbilled revenues.

The majority of the Group's contracts are of a fixed contract price nature. The Group does not typically enter into any cost-plus arrangements. The contracts usually contain a price adjustment clause allowing the Group to make adjustments to specific materials and supplies to compensate for inflationary situations.

Costs of construction are recognized as expenses as incurred. Costs of construction include costs that relate directly to a specific contract such as all raw materials, direct labour, subcontractors and other costs and indirect costs related to contract performance, such as indirect salaries and wages and equipment repairs. In addition, costs that are attributable to contract activity and can be charged to the contract under the agreed terms of the contract are included in the costs of construction. Contract costs exclude general administration costs, selling costs, research and development costs and depreciation of equipment not used in a contract.

Where current estimates indicate that total costs of construction will exceed total contract revenue, the full amount of the expected loss is recognized immediately as a charge to operations.

The Group generally provides a one-year warranty for workmanship under its contracts. Warranty cost provisions are based on management's best estimates of such costs and are charged to project costs as they are incurred, taking into account the specific arrangements of the contracts and past history. Warranty claims historically have been nominal.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### **Finance costs**

Finance costs are recorded in the consolidated statement of comprehensive income for all debt instruments on an accrual basis, using the effective interest method. This method defers, as part of finance costs, all fees paid between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Finance costs on borrowings to finance the construction of property and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

#### **Finance income**

Finance income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as finance income. Finance income on impaired loans is recognized using the original effective interest rate.

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES**

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

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

The most significant estimates relate to the depreciable lives of property and equipment, impairment of non-financial and financial assets, fair value of financial instruments and biological assets, provision for obsolete inventory. Actual results could differ from these estimates.

#### **Judgments**

In the process of applying the Group’s accounting policies, the management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the financial statements.

#### **Revenue recognition**

The Group uses the revenue recognition “percentage of completion method” for construction contracts (determined by the ratio of currently accumulated costs incurred to total estimated project costs). The Group estimates the cost to complete projects taking into account, in every phase of the project, the overall outcome from the expected information which was known to the Group to the date of preparation of the consolidated financial statements.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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Necessary prerequisite of these estimates is the Group’s effective control environment, continuous monitoring of contracts and evaluating the accuracy of estimates. Estimates and judgements are continually evaluated by Group’s management. Estimates are based on historical experience and other factors, including expectations of future events. In the case of open negotiations with an investor for the projects which are at risk of loss of significant changes to their technical and economic parameters to the original project took place, the Group estimates the costs of completion based on the fulfillment of its contractual and constructive obligations to investors.

The Group estimates a provision for guarantee repairs based on the fixed coefficient of future expected costs to total expected revenues of a project. When determining the coefficient, the Group reflects its own historical data of past costs for guarantee repairs and development of the construction industry in the area of providing guarantees as well.

The Group uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of total services to be performed.

#### **Indicators of impairment of property, plant and equipment**

Property, plant and equipment are tested for impairment when there are any indications of impairment. Significant factors, which, in the Group’s opinion, could require testing for impairment are as follows: a significant decline in an asset’s market value; significantly low operating results compared to previous or forecasted future operating results; significant changes in the extent to which, or manner in which, an asset is used or is expected to be used or in the business strategy in general, including plans for assets to be liquidated or replaced; the existence of damaged or decommissioned assets; significant negative trends in the industry or economy and other factors.

#### **Provision for slow-moving and obsolete inventories**

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

Write-down of inventories becomes necessary for several reasons; for example, inventories may be damaged or become obsolete or their selling prices may have declined after the year-end.

As at December 31, 2021 and 2020 the impairment allowance for slow-moving inventories was in the amount of AZN 1,075 thousand and AZN 497 thousand, respectively (Note 11).

#### **Current taxes**

Tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the 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. 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.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### **Useful lives of property, plant and equipment**

The estimation of the useful life of an item of property, plant and equipment is a matter of management estimate based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

#### **Litigations**

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to a negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision.

These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results.

#### **Allowance for expected credit losses on trade receivables and loans issued**

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

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

As at December 31, 2021 and 2020 ECL allowance for trade and other receivables and loans issued were in the amount of AZN 18,011 thousand and AZN 10,402 thousand, respectively (Note 14 and 16). The Group has not recognized ECL allowance for contract assets as at December 31, 2021 and 2020.

#### **Disposal of subsidiary**

As the sale of the subsidiary “AzVirt Ukraine” LLC as at May 24, 2021 did not meet the criteria for recognition as discontinued operations due to that the subsidiary did not represent a separate major line of business or geographical area of operations, the loss on disposal of subsidiary was recognized as other expenses in the consolidated financial statements.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In thousands of Azerbaijani manats)*

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#### 4. 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 on December 31, 2021.

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

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

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

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

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

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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

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

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

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

*(In thousands of Azerbaijani manats)*

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The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The impact of the adoption of this standard had no effect on the consolidated financial statements.

Unless otherwise disclosed, the new standards are not expected to have a material effect on the consolidated financial statements of the Group.

#### 5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

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

**IFRS 17 “Insurance contracts”** was issued in May 2017 and replaced IFRS 4 “Insurance contracts”. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 “Insurance Contracts” to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.

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

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

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



## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

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**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16** – In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37** – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

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

**IFRS 9 Financial Instruments – Fees in the “10 percent” test for derecognition of financial liabilities.** As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

**“IAS 41 Agriculture” – Taxation in fair value measurements** – As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

**IFRS 10 “Consolidated Financial Statements” and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Unless otherwise disclosed, the new standards are not expected to have a material effect on the consolidated financial statements of the Group.

#### 6. PRIOR PERIOD RECLASSIFICATIONS AND RESTATEMENTS

The effect of reclassifications and restatements on the consolidated statement of financial position and consolidated statement of comprehensive income for the year ended December 31, 2020 is presented in the tables below:

|  | As previously<br>reported<br>December 31,<br>2020 | Effect of<br>reclassifications<br>and restatements | As<br>restated/reclassified<br>December 31,<br>2020 |
|--|---|--|---|
| <b>Consolidated statement of financial position:</b> |   |  |   |
| Prepayment for inventories and other expenses        | 36,097  | (14,001)   | 22,096  |
| Advance paid to subcontractors                       | 3,982   | 14,001   | 17,983  |

|  | As previously<br>reported<br>December 31,<br>2020 | Effect of<br>reclassifications<br>and restatements | As<br>restated/reclassified<br>December 31,<br>2020 |
|--|---|--|---|
| <b>Consolidated statement of comprehensive income:</b> |   |  |   |
| <b>Costs of construction</b>                           | <b>(317,707)</b>                                  | <b>(3,848)</b>                                     | <b>(321,555)</b>                                    |
| Subcontractor costs                                    | (121,319)   | (52,803)   | (174,122)   |
| Material expenses                                      | (129,345)   | 52,803   | (76,542)  |
| Professional services                                  | (801)   | (2,878)  | (3,679)   |
| Insurance expenses                                     | (542)   | (595)  | (1,137)   |
| Security   | (262)   | (445)  | (707)   |
| Communication expenses                                 | (72)  | 70   | (2)   |
| <b>General and administrative expenses</b>             | <b>(24,845)</b>                                   | <b>3,848</b>                                       | <b>(20,997)</b>                                     |
| Consulting and professional services                   | (5,539)   | 2,878  | (2,661)   |
| Communication expenses                                 | (279)   | (70)   | (349)   |
| Security expense                                       | (598)   | 445  | (153)   |
| Insurance expenses                                     | (612)   | 595  | (17)  |

|  | As previously<br>reported<br>December 31,<br>2020 | Effect of<br>reclassifications<br>and restatements | As<br>restated/reclassified<br>December 31,<br>2020 |
|--|---|--|---|
| <b>Consolidated statement of cash flows:</b> |   |  |   |
| Inventories                                  | (27,192)  | 14,001   | (13,191)  |
| Advance paid to subcontractors               | 5,106   | (14,001)   | (8,895)   |

**“AZVIRT” LIMITED LIABILITY COMPANY**

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

*(In thousands of Azerbaijani manats)*

**7. PROPERTY, PLANT AND EQUIPMENT**

|  | Land      | Buildings     | Plant and equipment | Machinery and equipment | Computers and equipment | Furniture and fixtures | Vehicles      | CIP          | Leasehold improvement | Total          |
|--|-----------|---------------|---------------------|-------------------------|-------------------------|------------------------|---------------|--------------|-----------------------|----------------|
| <b>At initial cost</b>                         |           |               |                     |                         |                         |                        |               |              |                       |                |
| <b>January 1, 2020</b>                         | <u>-</u>  | <u>7,925</u>  | <u>24,916</u>       | <u>63,146</u>           | <u>1,968</u>            | <u>934</u>             | <u>23,299</u> | <u>6,433</u> | <u>-</u>              | <u>128,621</u> |
| Additions                                      | 10        | 740           | 580                 | 7,168                   | 172                     | 61                     | 1,524         | 6,320        | 311                   | 16,886         |
| Eliminated on disposals                        | -         | (208)         | -                   | (4,878)                 | (3)                     | (3)                    | (338)         | -            | -                     | (5,430)        |
| Transfer in/(out)                              | -         | 5,128         | 1,684               | -                       | -                       | -                      | -             | (6,812)      | -                     | -              |
| Effect of translation to presentation currency | -         | 355           | (200)               | (416)                   | (103)                   | (15)                   | 322           | 351          | (25)                  | 269            |
| <b>December 31, 2020</b>                       | <u>10</u> | <u>13,940</u> | <u>26,980</u>       | <u>65,020</u>           | <u>2,034</u>            | <u>977</u>             | <u>24,807</u> | <u>6,292</u> | <u>286</u>            | <u>140,346</u> |
| Additions                                      | -         | 571           | 6,100               | 27,951                  | 365                     | 111                    | 2,338         | 688          | -                     | 38,124         |
| Transfer from right-of-use assets              | -         | -             | -                   | 7,460                   | -                       | -                      | 4,110         | -            | -                     | 11,570         |
| Eliminated on disposals                        | -         | (95)          | (8,210)             | (12,949)                | (357)                   | (4)                    | (3,017)       | -            | -                     | (24,632)       |
| Transfer in/(out)                              | -         | 6,723         | -                   | -                       | -                       | -                      | -             | (6,723)      | -                     | -              |
| Disposal of subsidiary                         | -         | -             | -                   | (904)                   | (6)                     | (1)                    | -             | -            | -                     | (911)          |
| Effect of translation to presentation currency | -         | (716)         | 8                   | (1,673)                 | 14                      | -                      | (10)          | (257)        | (1)                   | (2,635)        |
| <b>December 31, 2021</b>                       | <u>10</u> | <u>20,423</u> | <u>24,878</u>       | <u>84,905</u>           | <u>2,050</u>            | <u>1,083</u>           | <u>28,228</u> | <u>-</u>     | <u>285</u>            | <u>161,861</u> |

**“AZVIRT” LIMITED LIABILITY COMPANY**

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

*(In thousands of Azerbaijani manats)*

|  | Land      | Buildings      | Plant and equipment | Machinery and equipment | Computers and equipment | Furniture and fixtures | Vehicles        | CIP          | Leasehold improvement | Total           |
|--|-----------|----------------|---------------------|-------------------------|-------------------------|------------------------|-----------------|--------------|-----------------------|-----------------|
| <b>Accumulated depreciation and impairment</b> |           |                |                     |                         |                         |                        |                 |              |                       |                 |
| <b>January 1, 2020</b>                         | -         | (3,157)        | (9,080)             | (41,306)                | (1,274)                 | (841)                  | (17,923)        | -            | -                     | (73,581)        |
| Depreciation charge                            | -         | (136)          | (871)               | (4,984)                 | (246)                   | (56)                   | (2,040)         | -            | -                     | (8,333)         |
| Eliminated on disposals                        | -         | 33             | -                   | 2,195                   | 1                       | 1                      | 108             | -            | -                     | 2,338           |
| Effect of translation to presentation currency | -         | 1              | 39                  | (578)                   | 18                      | 6                      | 733             | -            | -                     | 219             |
| <b>December 31, 2020</b>                       | <u>-</u>  | <u>(3,259)</u> | <u>(9,912)</u>      | <u>(44,673)</u>         | <u>(1,501)</u>          | <u>(890)</u>           | <u>(19,122)</u> | <u>-</u>     | <u>-</u>              | <u>(79,357)</u> |
| Depreciation charge                            | -         | (1,092)        | (719)               | (6,116)                 | (185)                   | (36)                   | (2,530)         | -            | (143)                 | (10,821)        |
| Transfer from right-of-use assets              | -         | -              | -                   | (1,650)                 | -                       | -                      | (1,272)         | -            | -                     | (2,922)         |
| Eliminated on disposals                        | -         | 12             | 952                 | 2,144                   | 153                     | 2                      | 2,879           | -            | -                     | 6,142           |
| Disposal of subsidiary                         | -         | -              | (60)                | 43                      | -                       | 1                      | -               | -            | -                     | (16)            |
| Effect of translation to presentation currency | -         | 41             | (22)                | 915                     | (5)                     | (1)                    | (195)           | -            | -                     | 733             |
| <b>December 31, 2021</b>                       | <u>-</u>  | <u>(4,298)</u> | <u>(9,761)</u>      | <u>(49,337)</u>         | <u>(1,538)</u>          | <u>(924)</u>           | <u>(20,240)</u> | <u>-</u>     | <u>(143)</u>          | <u>(86,241)</u> |
| <b>Net book value:</b>                         |           |                |                     |                         |                         |                        |                 |              |                       |                 |
| <b>December 31, 2021</b>                       | <u>10</u> | <u>16,125</u>  | <u>15,117</u>       | <u>35,568</u>           | <u>512</u>              | <u>159</u>             | <u>7,988</u>    | <u>-</u>     | <u>142</u>            | <u>75,621</u>   |
| <b>December 31, 2020</b>                       | <u>10</u> | <u>10,681</u>  | <u>17,068</u>       | <u>20,347</u>           | <u>533</u>              | <u>87</u>              | <u>5,685</u>    | <u>6,292</u> | <u>286</u>            | <u>60,989</u>   |

As at December 31, 2021 and 2020, included in property, plant and equipment items in the amount of AZN 44,727 thousand and AZN 39,351 thousand, respectively were fully depreciated. As at December 31, 2021 and 2020, included in property, plant and equipment items insured in the amount of AZN 78,501 thousand and AZN 78,926 thousand, respectively.

**“AZVIRT” LIMITED LIABILITY COMPANY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**  
*(In thousands of Azerbaijani manats)*

**8. INTANGIBLE ASSETS**

|  | <b>Software and<br/>licenses</b> | <b>Total</b>        |
|--|----------------------------------|---------------------|
| <b>Initial cost</b>                            |                                  |                     |
| <b>January 1, 2020</b>                         | <u><b>168</b></u>                | <u><b>168</b></u>   |
| Additions                                      | 3                                | 3                   |
| Effect of translation to presentation currency | <u>(2)</u>                       | <u>(2)</u>          |
| <b>December 31, 2020</b>                       | <u><b>169</b></u>                | <u><b>169</b></u>   |
| Additions                                      | 1                                | 1                   |
| Effect of translation to presentation currency | <u>-</u>                         | <u>-</u>            |
| <b>December 31, 2021</b>                       | <u><b>170</b></u>                | <u><b>170</b></u>   |
| <b>Accumulated amortization</b>                |                                  |                     |
| <b>January 1, 2020</b>                         | <u><b>(107)</b></u>              | <u><b>(107)</b></u> |
| Charge for the year                            | (17)                             | (17)                |
| Effect of translation to presentation currency | <u>7</u>                         | <u>7</u>            |
| <b>December 31, 2020</b>                       | <u><b>(117)</b></u>              | <u><b>(117)</b></u> |
| Charge for the year                            | (16)                             | (16)                |
| Effect of translation to presentation currency | <u>3</u>                         | <u>3</u>            |
| <b>December 31, 2021</b>                       | <u><b>(130)</b></u>              | <u><b>(130)</b></u> |
| <b>Net book value:</b>                         |                                  |                     |
| <b>December 31, 2021</b>                       | <u><b>40</b></u>                 | <u><b>40</b></u>    |
| <b>December 31, 2020</b>                       | <u><b>52</b></u>                 | <u><b>52</b></u>    |

**“AZVIRT” LIMITED LIABILITY COMPANY**

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

*(In thousands of Azerbaijani manats)*

**9. RIGHT-OF-USE ASSETS**

|  | <b>Buildings</b> | <b>Land</b> | <b>Plant and<br/>equipment</b> | <b>Machinery<br/>and<br/>equipment</b> | <b>Vehicles</b> | <b>Total</b>   |
|--|------------------|-------------|--------------------------------|--|-----------------|----------------|
| <b>At initial cost</b>                             |                  |             |                                |  |                 |                |
| <b>January 1, 2020</b>                             | <b>802</b>       | -           | <b>7,173</b>                   | <b>4,796</b>                           | -               | <b>12,771</b>  |
| Additions  | -                | -           | 1,710                          | 580                                    | 46              | 2,336          |
| Disposal   | -                | -           | (42)                           | (143)                                  | -               | (185)          |
| Effect of translation to<br>presentation currency  | -                | -           | 838                            | (699)                                  | (2)             | 137            |
| <b>December 31, 2020</b>                           | <b>802</b>       | -           | <b>9,679</b>                   | <b>4,534</b>                           | <b>44</b>       | <b>15,059</b>  |
| Additions  | 1,121            | 122         | -                              | 10,782                                 | 2,684           | 14,709         |
| Transfer to PPE                                    | -                | -           | (7,460)                        | (4,110)                                | -               | (11,570)       |
| Transfer in/(out)                                  | -                | -           | (1,692)                        | -                                      | 1,692           | -              |
| Disposal   | -                | -           | -                              | (220)                                  | -               | (220)          |
| Disposal of subsidiary                             | -                | -           | -                              | -                                      | (44)            | (44)           |
| Effect of translation to<br>presentation currency  | (47)             | -           | (400)                          | (230)                                  | (182)           | (859)          |
| <b>December 31, 2021</b>                           | <b>1,876</b>     | <b>122</b>  | <b>127</b>                     | <b>10,756</b>                          | <b>4,194</b>    | <b>17,075</b>  |
| <b>Accumulated depreciation<br/>and impairment</b> |                  |             |                                |  |                 |                |
| <b>January 1, 2020</b>                             | <b>(9)</b>       | -           | <b>(861)</b>                   | <b>(438)</b>                           | -               | <b>(1,308)</b> |
| Depreciation charge                                | (9)              | -           | (777)                          | (943)                                  | (1)             | (1,730)        |
| Disposal   | -                | -           | 6                              | 143                                    | -               | 149            |
| Effect of translation to<br>presentation currency  | -                | -           | (145)                          | 85                                     | -               | (60)           |
| <b>January 1, 2021</b>                             | <b>(18)</b>      | -           | <b>(1,777)</b>                 | <b>(1,153)</b>                         | <b>(1)</b>      | <b>(2,949)</b> |
| Depreciation charge                                | (187)            | (24)        | (20)                           | (1,003)                                | (435)           | (1,669)        |
| Transfer to PPE                                    | -                | -           | 1,650                          | 1,272                                  | -               | 2,922          |
| Transfer in/(out)                                  | -                | -           | 34                             | -                                      | (34)            | -              |
| Disposal   | -                | -           | -                              | 174                                    | 1               | 175            |
| Disposal of subsidiary                             | -                | -           | -                              | -                                      | 1               | 1              |
| Effect of translation to<br>presentation currency  | 7                | -           | 74                             | (101)                                  | 19              | (1)            |
| <b>December 31, 2021</b>                           | <b>(198)</b>     | <b>(24)</b> | <b>(39)</b>                    | <b>(811)</b>                           | <b>(449)</b>    | <b>(1,521)</b> |
| <b>Net book value:</b>                             |                  |             |                                |  |                 |                |
| <b>December 31, 2021</b>                           | <b>1,678</b>     | <b>98</b>   | <b>88</b>                      | <b>9,945</b>                           | <b>3,745</b>    | <b>15,554</b>  |
| <b>December 31, 2020</b>                           | <b>784</b>       | -           | <b>7,902</b>                   | <b>3,381</b>                           | <b>43</b>       | <b>12,110</b>  |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### 10. REFUNDABLE DEPOSITS WITH THE CUSTOMERS

|  | December 31,<br>2021 | December 31,<br>2020 |
|--|----------------------|----------------------|
| The “Power Construction Corporation of China limited Ogranak Beograd” Ltd.           | 8,794                | 4,784                |
| The Ministry of Construction, Transport and Infrastructure of the Republic of Serbia | 8,126                | 2,086                |
| The State Road Agency of Ukraine “Ukavtodor”   | 5,151                | 5,540                |
| The Ministry of Transport and Road of the Republic of Kyrgyzstan                     | 4,132                | 1,490                |
| The “Ogranak MMS International Beograd” Ltd.   | -                    | 384                  |
| The “Energoprojekt” Ltd.   | -                    | 84                   |
| <b>Total refundable deposits with the customers</b>                                  | <b>26,203</b>        | <b>14,368</b>        |

According to the contractual agreement for the construction of Highway E70/E75, Section: Bridge over River, in the Republic of Serbia signed between the Group and the “Power Construction Corporation of China limited Ogranak Beograd” Ltd., the latest had a right to withhold as a guarantee for the quality of work performed 5% of the value of works performed. As at December 31, 2021 the Group’s receivables from the “Power Construction Corporation of China limited Ogranak Beograd” Ltd. for quality guarantee amounted to AZN 8,794 thousand (December 31, 2020: AZN 4,784 thousand).

According to the Commercial Contract for the Design and execution of works on the project Ruma-Sabac-Loznica, registered by the Employer under no. U-10558/19 dated November 19, 2019, in the Republic of Serbia signed between the Group and the “The Ministry of Construction, Transport and Infrastructure”, the latest had a right to withhold retention as a guarantee for the quality of work performed in amount of 5% of the value of works performed. As at December 31, 2021 the Group’s receivables from the “The Ministry of Construction, Transport and Infrastructure” for quality guarantee amounted to AZN 8,126 thousand (December 31, 2020: AZN 2,086 thousand).

According to the contractual agreement for the construction of Repair of the section of M01 Road Kyiv-Chernigiv-Noviy Yarylovychi (Lot 1-3), in the Republic of Ukraine signed between the Group and the State Agency of Automobile Roads of the Republic of Ukraine, the latest had a right to withhold as a guarantee for quality 10% of the value of works performed. As at December 31, 2021 the Group’s receivables from the State Agency of Automobile Roads of the Republic of Ukraine for quality guarantee amounted to AZN 5,151 thousand. (December 31, 2020: AZN 5,540 thousand).

According to the contractual agreement for the construction of Reconstruction of 67 km of the Bishkek-Osh Corridor, section Madaniyyat-Djalal-Abad (km 507.5 – km 574.5) in the Republic of Kyrgyzstan signed between the Group and Ministry of Transport and Roads of the Republic of Kyrgyzstan, the latest had a right to withhold as a guarantee for quality 10% of the value of works performed. As at December 31, 2021 the Group’s receivables from the Ministry of Transport and Road of the Republic of Kyrgyzstan for quality guarantee amounted to AZN 4,132 thousand. (December 31, 2020: AZN 1,490 thousand).

The Management was confident that these deposits were fully collectable and there was no material impact on consolidated financial statements regarding the additional works.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### 11. RESTRICTED DEPOSITS

Restricted deposits at banks as at December 31, 2021 consist of AZN 5,055 thousand placed in “AIK Banka A.D. Belgrade” (deposit for Advance payment) and AZN 53,490 thousand as a guarantee deposit, pledge for revolving loan under the contract with “UniCredit Bank Serbia” JSC (December 31, 2020: nil).

#### 12. INVENTORIES

Inventory balances consisted of the following:

|   | December 31,<br>2021 | December 31,<br>2020 |
|---|----------------------|----------------------|
| Construction materials                      | 24,718               | 12,877               |
| Spare parts                                 | 2,355                | 2,547                |
| Fuel  | 1,027                | 993                  |
| Others                                      | 256                  | 160                  |
| <b>Total inventories, gross</b>             | <b>28,356</b>        | <b>16,577</b>        |
| Less: write-down of slow moving inventories | (1,075)              | (497)                |
| <b>Total inventories, net</b>               | <b>27,281</b>        | <b>16,080</b>        |

As at December 31, 2021 and at 2020, included in inventories there were neither any assets with restrictions on title, nor any assets that were pledged as security for liabilities.

Movements of provision for obsolete and damaged inventories are as follow:

|  | December 31,<br>2021 | December 31,<br>2020 |
|--|----------------------|----------------------|
| Provision at the beginning of the year                               | (497)                | (420)                |
| Change in provision on damaged and obsolete inventories for the year | (578)                | (77)                 |
| <b>Provision at the end of the year</b>                              | <b>(1,075)</b>       | <b>(497)</b>         |

#### 13. PREPAYMENTS FOR INVENTORY AND OTHER EXPENSES

|  | December 31,<br>2021 | December 31,<br>2020<br>(restated/<br>reclassified) |
|--|----------------------|---|
| Prepayments for inventories  | 11,295               | 20,897  |
| Prepayment for services  | 7,087                | 1,898   |
| Others   | 30                   | 4   |
| Less: impairment allowance on prepayments for inventory and other expenses | (1,647)              | (703)   |
| <b>Total prepayments for inventory and other expenses, net</b>             | <b>16,765</b>        | <b>22,096</b>                                       |



## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

As at December 31, 2021, and 2020 the Group had prepayments to four and three suppliers in the amount of AZN 5,744 thousand and AZN 8,671 thousand which comprise, 34% and 39% of the total prepayments for inventory and other expenses, respectively.

#### 14. LOANS ISSUED

|  | December 31,<br>2021 | December 31,<br>2020 |
|--|----------------------|----------------------|
| Loans issued to related parties            | 4,915                | 3,041                |
| Loans issued to external parties           | -                    | 224                  |
| Less: allowance for expected credit losses | <u>(1,857)</u>       | <u>-</u>             |
| <b>Total loans issued</b>                  | <b><u>3,058</u></b>  | <b><u>3,265</u></b>  |

Changes in the allowance of the expected credit losses of loans issued is presented below:

|                                      | 2021                  | 2020            |
|--------------------------------------|-----------------------|-----------------|
| <b>Balance as at January 1</b>       | -                     | -               |
| Net change in expected credit losses | <u>(1,857)</u>        | <u>-</u>        |
| <b>Balance as at December 31</b>     | <b><u>(1,857)</u></b> | <b><u>-</u></b> |

As at December 31, 2021, the loans issued to related parties represent the amount of AZN 4,915 thousand with no interest and with a maturity of less than one year ( December 31, 2020: the loans issued to related parties represent the amount of AZN 3,041 thousand with the annual interest rate of 5.55% with the maturity of less than one year).

#### 15. ADVANCE PAID TO SUBCONTRACTORS

|  | December 31,<br>2021 | December 31,<br>2020<br>(restated/<br>reclassified) |
|--|----------------------|---|
| Advance paid to subcontractors                     | <u>42,831</u>        | <u>18,580</u>                                       |
| <b>Total advance paid to subcontractors, gross</b> | <b><u>42,831</u></b> | <b><u>18,580</u></b>                                |
| Less: allowance for expected credit losses         | <u>(1,327)</u>       | <u>(597)</u>  |
| <b>Total advance paid to subcontractors, net</b>   | <b><u>41,504</u></b> | <b><u>17,983</u></b>                                |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

Changes in the allowance of the expected credit losses of advance paid to subcontractors are presented below:

|                                    | 2021                  | 2020                |
|------------------------------------|-----------------------|---------------------|
| <b>Balance as at January 1</b>     | (597)                 | (597)               |
| Net change in expected credit loss | <u>(730)</u>          | <u>-</u>            |
| <b>Balance as at December 31</b>   | <u><u>(1,327)</u></u> | <u><u>(597)</u></u> |

Contract performance deposits are advanced to developers at the beginning of construction projects. The deposits are repaid to the Group based on the progress of construction and the terms of the contract.

#### 16. CONTRACT ASSETS

Contracts in progress at the reporting date:

|   | December 31,<br>2021 | December 31,<br>2020 |
|---|----------------------|----------------------|
| Construction costs incurred plus recognized profit less recognized loss to date | <u>17,398</u>        | <u>15,914</u>        |
| <b>Net contract assets</b>  | <u><u>17,398</u></u> | <u><u>15,914</u></u> |

Contract assets are initially recognized for revenue earned from construction services, as receipt of consideration is conditional on future dates in the successful completion of the construction process. Upon completion of construction and acceptance by the customers, the amounts recognized as contract assets are reclassified to trade and other receivables. The amount in contract assets as at December 31, 2021 represents five customers in the amount of AZN 4,163 thousand, AZN 5,017 thousand, AZN 1,328 thousand, AZN 1,077 thousand and AZN 4,771 thousand and AZN 1,042 thousand from the State Agency of Automobile Roads of the Republic of Ukraine, 17th Road Maintenance LLC, 23rd Road Maintenance LLC, Zangilan Airport LLC and Power Construction Corporation of China limited Ogranak Beograd and others, respectively. (The amount in contract assets as at December 31, 2020 represents two customers in the amount of AZN 13,139 thousand and AZN 2,775 thousand from the State Agency of Automobile Roads of the Republic of Ukraine and the Ministry of Transport and Road of the Republic of Kyrgyzstan, respectively).

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### 17. TRADE AND OTHER RECEIVABLES

|  | December 31,<br>2021 | December 31,<br>2020 |
|--|----------------------|----------------------|
| Trade receivable for construction works from foreign subcontractors  | 56,027               | 59,450               |
| Trade receivable for construction works from domestic subcontractors | 27,558               | 36,236               |
| Trade receivable for other services                                  | 1,207                | 998                  |
| <b>Total trade and other receivables, gross</b>                      | <b>84,792</b>        | <b>96,684</b>        |
| Less: allowance for expected credit losses                           | (16,154)             | (10,402)             |
| <b>Total trade and other receivables, net</b>                        | <b>68,638</b>        | <b>86,282</b>        |

Changes in the allowance for expected credit losses for trade and other receivables are presented below:

|                                    | 2021            | 2020            |
|------------------------------------|-----------------|-----------------|
| <b>Balance as at January 1</b>     | <b>(10,402)</b> | <b>(8,800)</b>  |
| Net change in expected credit loss | (5,752)         | (1,602)         |
| <b>Balance as at December 31</b>   | <b>(16,154)</b> | <b>(10,402)</b> |

As at December 31, 2021, and 2020 the Group had outstanding trade and other receivables balance from four and three customers in the amount of AZN 53,430 thousand and AZN 44,853 thousand which comprise 63% and 46%, of the total gross trade and other receivables.

As at December 31, 2021 AZN 19,216 thousand (December 31, 2020: AZN 31,552 thousand) amount of the trade and other receivables is due from Power Construction Corporation of China limited branch Belgrade.

Power Construction Corporation of China limited branch Belgrade is the main Contractor for the Project of construction of the ring road around Belgrade. The project is financed from EXIM Bank's loan for the Republic of Serbia, and the claims are fully realizable.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In thousands of Azerbaijani manats)

#### 18. CASH AND CASH EQUIVALENTS

|  | December 31,<br>2021 | December 31,<br>2020 |
|--|----------------------|----------------------|
| Cash at bank                           | 27,218               | 22,330               |
| Cash on hand                           | 52                   | 166                  |
| <b>Total cash and cash equivalents</b> | <b>27,270</b>        | <b>22,496</b>        |

There were no restrictions on the use of cash and cash equivalents as at December 31, 2021 and 2020.

For the purpose of ECL measurement cash and cash equivalents, balances are included in Stage 1. The ECL for these balances represents an insignificant amount.

#### 19. OTHER ASSETS

|   | December 31,<br>2021 | December 31,<br>2020 |
|---|----------------------|----------------------|
| <b>Other financial assets:</b>          |                      |                      |
| Loans disbursed to individuals          | 181                  | 102                  |
| Others                                  | 86                   | 103                  |
| <b>Total other financial assets</b>     | <b>267</b>           | <b>205</b>           |
| <b>Other non-financial assets:</b>      |                      |                      |
| VAT deposit account                     | 2,008                | 307                  |
| Deferred expense                        | 529                  | 1,149                |
| Advances paid to employees              | 173                  | -                    |
| Others                                  | 17                   | 6                    |
| <b>Total other non-financial assets</b> | <b>2,727</b>         | <b>1,462</b>         |
| <b>Total other assets</b>               | <b>2,994</b>         | <b>1,667</b>         |

#### 20. DEPOSITS FROM SUBCONTRACTORS

|   | December 31,<br>2021 | December 31,<br>2020 |
|---|----------------------|----------------------|
| Deposits from foreign subcontractors      | 6,513                | 3,792                |
| <b>Total deposits from subcontractors</b> | <b>6,513</b>         | <b>3,792</b>         |

Deposits from subcontractors are deposits hold from subcontractors performing the construction works.

As at December 31, 2021 and 2020 the Group had outstanding deposit from three subcontractors in the amount of AZN 3,410 thousand and from two subcontractors in the amount of AZN 1,333 thousand which comprise 52% and 35% of the total deposits from subcontractors, respectively.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In thousands of Azerbaijani manats)

#### 21. LEASE LIABILITY

|                                | December 31,<br>2021 | December 31,<br>2020 |
|--------------------------------|----------------------|----------------------|
| Current lease liabilities      | 596                  | 3,017                |
| Non-current lease liabilities  | 13,796               | 2,142                |
| <b>Total lease liabilities</b> | <b>14,392</b>        | <b>5,159</b>         |

Future minimum lease payments as at December 31, 2021 are as follows:

|  | Minimum lease payments due |                      |               |
|--|----------------------------|----------------------|---------------|
|  | Within one<br>year         | One to five<br>years | Total         |
| Lease payments                                   | 701                        | 16,191               | 16,892        |
| Finance charges                                  | (105)                      | (2,395)              | (2,500)       |
| <b>Net present value as at December 31, 2021</b> | <b>596</b>                 | <b>13,796</b>        | <b>14,392</b> |

Future minimum lease payments as at December 31, 2020 are as follows:

|  | Minimum lease payments due |                      |              |
|--|----------------------------|----------------------|--------------|
|  | Within one<br>year         | One to five<br>years | Total        |
| Lease payments                                   | 3,182                      | 4,625                | 7,807        |
| Finance charges                                  | (165)                      | (2,483)              | (2,648)      |
| <b>Net present value as at December 31, 2020</b> | <b>3,017</b>               | <b>2,142</b>         | <b>5,159</b> |

A reconciliation of the opening and closing amounts of lease liability with relevant cash and non-cash changes from financing activities as at December 31, 2021 is stated below:

|                                      |               |
|--------------------------------------|---------------|
| <b>Balance as at January 1, 2021</b> | <b>5,159</b>  |
| <b>Cash flows</b>                    |               |
| Principal paid                       | (9,875)       |
| Interest paid                        | (872)         |
| <b>Non-cash changes</b>              |               |
| New leases                           | 19,974        |
| Interest expense                     | 872           |
| Disposal                             | (40)          |
| Disposal of subsidiary               | (33)          |
| Foreign exchange                     | (793)         |
| <b>December 31, 2021</b>             | <b>14,392</b> |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

A reconciliation of the opening and closing amounts of lease liability with relevant cash and non-cash changes from financing activities as at December 31, 2020 is stated below:

|                                      |              |
|--------------------------------------|--------------|
| <b>Balance as at January 1, 2020</b> | <b>7,138</b> |
| <b>Cash flows</b>                    |              |
| Principal paid                       | (4,521)      |
| Interest paid                        | (439)        |
| <b>Non-cash changes</b>              |              |
| New leases                           | 2,336        |
| Interest expense                     | 439          |
| Foreign exchange                     | 206          |
| <b>December 31, 2020</b>             | <b>5,159</b> |

## 22. ADVANCES FROM CUSTOMERS

|  | December 31,<br>2021 | December 31,<br>2020 |
|--|----------------------|----------------------|
| Projects in the Republic of Serbia                   | 112,177              | 56,416               |
| Projects in the Republic of Azerbaijan               | 16,908               | 4,868                |
| Projects in the Republic of Kyrgyzstan               | 7,924                | 23,278               |
| Projects in the Federation of Bosnia and Herzegovina | 2,320                | 11,199               |
| Projects in the Republic of Ukraine                  | 55                   | 23,481               |
| <b>Total advances from customers</b>                 | <b>139,384</b>       | <b>119,242</b>       |

Advances from customers represent advances for the construction works on the highway.

## 23. BORROWINGS

|  | December 31,<br>2021 | December 31,<br>2020 |
|--|----------------------|----------------------|
| “Pasha Bank” OJSC                                | 20,571               | 5,453                |
| “AIK Banka A.D. Belgrade”                        | 10,584               | -                    |
| “International Bank of Azerbaijan Republic” OJSC | 5,502                | 5,863                |
| “AKA European Export Trade Bank”                 | 4,553                | 5,651                |
| “Premiumbank” OJSC                               | 3,153                | 1,048                |
| “First Ukrainian International Bank” JSC         | 2,191                | -                    |
| “OTP leasing” LLC                                | 1,325                | -                    |
| “Muğanbank” OJSC                                 | 617                  | 1,151                |
| “Sky Bank” JSC                                   | -                    | 603                  |
| <b>Total borrowings</b>                          | <b>48,496</b>        | <b>19,769</b>        |

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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As at December 31, 2021 borrowings represent long-term borrowings and short-term borrowings from “Pasha Bank” OJSC in the amount of AZN 16,937 thousand and AZN 3,634 thousand, respectively, with the maturity of a year and ten months and annual interest rate 5% and 14%; short-term bank borrowings from “AIK Banka A.D. Belgrade” in the total amount of AZN 10,584 thousand with the maturity of one month and quarterly interest rate of 3.5%+3 month EURIBOR; short-term borrowings from “IBAR” OJSC in the amount of AZN 5,502 thousand with the maturity of eleven months and annual interest rate of 4.5%; long-term borrowings and short-term borrowings from “AKA European Export Trade Bank” in the amount of AZN 2,787 thousand and AZN 1,766 thousand, respectively, with the maturity of three years and four months and annual interest rate of 2.5%; short-term bank borrowings from “Premiumbank” OJSC in the amount of AZN 3,153 thousand with the maturity of less than one year and annual interest rate of 10%; short-term borrowings from “First Ukrainian International Bank” JSC in the amount of AZN 2,191 thousand with the maturity of one month and annual interest rate of 20% ; long-term borrowings and short-term borrowings from “OTP Leasing” LLC in the amount of AZN 676 thousand and AZN 649 thousand, respectively, with the maturity of 2 years and 2 months and annual interest rate of 20%; short-term borrowings from “Muğanbank” OJSC in the amount of AZN 617 thousand with the maturity of less than a year and annual interest rate of 2%.

As at December 31, 2020 borrowings represent long-term borrowings and short-term borrowings from “Pasha Bank” OJSC in the amount of AZN 4,133 thousand and AZN 1,320 thousand, respectively, with the maturity of three years and an annual interest rate of 11%; long-term borrowings from “IBAR” OJSC in the amount of AZN 5,863 thousand with the maturity of two years and an annual interest rate of 4.5%; long-term borrowings and short-term borrowings from “AKA European Export Trade Bank” in the amount of AZN 4,011 thousand and AZN 1,640 thousand, respectively, with the maturity of four years and a six-month interest rate of 2.5%; short-term bank borrowings from “Premiumbank” OJSC in the amount of AZN 1,048 thousand with the maturity of less than one year and an annual interest rate of 10%; long-term borrowings and short-term borrowings from “Muğanbank” OJSC in the amount of AZN 576 thousand and AZN 575 thousand, respectively, with the maturity of three years and annual interest rate of 2%; short-term bank borrowings taken from “SkyBank” JSC in the total amount of AZN 603 thousand with the maturity of less than one year and an annual interest rate of 14%.

As at December 31, 2021, the Group had unused credit lines denominated in AZN and EUR in the amount of AZN 64,470 thousand and AZN 63,588 thousand, respectively (December 31, 2020: denominated in AZN and EUR in the amount of AZN 60,644 thousand and 48,000 thousand, respectively). The Group obtained guarantee letters in the amount of AZN 289,348 thousand for the accomplishment of the construction works in the Republic of Ukraine, the Republic of Kyrgyzstan, the Federation of Bosnia and Herzegovina and the Republic of Serbia from banks as at December 31, 2021 (December 31, 2020: AZN 216,898 thousand).

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

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

|   | 2021          | 2020          |
|---|---------------|---------------|
| <b>January 1</b>                                | <b>19,769</b> | <b>11,637</b> |
| <b>Cash changes</b>                             |               |               |
| Proceeds  | 110,796       | 39,903        |
| Principal paid                                  | (81,283)      | (33,233)      |
| Finance cost paid                               | (7,490)       | (4,189)       |
| <b>Non-cash changes</b>                         |               |               |
| Purchase of properties through direct financing | 1,477         | -             |
| Finance cost                                    | 7,379         | 5,109         |
| Disposal of subsidiary                          | (603)         | -             |
| Foreign exchange                                | (1,549)       | 542           |
| <b>December 31</b>                              | <b>48,496</b> | <b>19,769</b> |

#### 24. TRADE AND OTHER PAYABLES

|   | December 31,<br>2021 | December 31,<br>2020 |
|---|----------------------|----------------------|
| Trade and other payables to foreign subcontractors  | 84,088               | 50,201               |
| Trade and other payables to domestic subcontractors | 11,821               | 10,655               |
| <b>Total trade and other payables</b>               | <b>95,909</b>        | <b>60,856</b>        |

As at December 31, 2021 and 2020 the Group had outstanding trade and other payables balance to two and three customers in the amount of AZN 36,958 thousand and AZN 12,890 thousand which comprise 39% and 21% of the total trade and other payables, respectively.

Trade and other payables include interest-bearing trade payables to “Wirtgen Road Technologies” for the purchase of various machinery and equipment at the amount of AZN 8,576 thousand with an annual interest rate of 4.30%.

Trade and other payables include long-term trade payables to “Marini İç Dış Ticaret” for the purchase of a plant at the amount of AZN 2,813 thousand with no interest rate.

The purchase arrangement did not include the finance component, as the cash sales price of the equipment was the same as the transaction amount. Therefore the payable amount was not discounted considering the time value effect.

The average credit on payment for the services and supplies delivered is up to 30 - 60 days according to the terms of the contracts.



## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

The sector analysis of the trade and other payables is as follows:

|                                       | December 31,<br>2021 | December 31,<br>2020 |
|---------------------------------------|----------------------|----------------------|
| Construction                          | 85,561               | 47,583               |
| Service                               | 6,053                | 6,861                |
| Energy                                | 1,900                | 5,410                |
| Others                                | 2,395                | 1,002                |
| <b>Total trade and other payables</b> | <b>95,909</b>        | <b>60,856</b>        |

#### 25. OTHER LIABILITIES

|  | December 31,<br>2021 | December 31,<br>2020 |
|--|----------------------|----------------------|
| <b>Other financial liabilities:</b>          |                      |                      |
| Accruals                                     | 1,557                | 88                   |
| <b>Total other financial liabilities</b>     | <b>1,557</b>         | <b>88</b>            |
| <b>Other non-financial liabilities:</b>      |                      |                      |
| Payables to state and local funds            | 1,318                | 765                  |
| Warranty allowance                           | 177                  | 177                  |
| <b>Total other non-financial liabilities</b> | <b>1,495</b>         | <b>942</b>           |
| <b>Total other liabilities</b>               | <b>3,052</b>         | <b>1,030</b>         |

#### 26. SHARE CAPITAL

As at December 31, 2021 and 2020 share capital amounted to AZN 129 thousand consisting of 40 shares with AZN 3,225 face value per share.

For the information regarding the ownership of the Group please refer to Note 1.

Dividends declared and paid during the years were as follows:

|   | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|---|------------------------------------|------------------------------------|
| <b>Dividends payable at January 1</b>   | -                                  | -                                  |
| Dividends declared during the year      | 12,000                             | -                                  |
| Dividends paid during the year          | -                                  | -                                  |
| <b>Dividends payable at December 31</b> | <b>12,000</b>                      | <b>-</b>                           |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### 27. CONSTRUCTION REVENUE

|  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|--|------------------------------------|------------------------------------|
| Revenue from foreign construction contracts  | 427,520                            | 265,863                            |
| Revenue from domestic construction contracts | 134,440                            | 88,480                             |
| Others                                       | 1,241                              | 413                                |
| <b>Total construction revenue</b>            | <b>563,201</b>                     | <b>354,756</b>                     |

As at December 31, 2021 and 2020, included in the construction revenue amounts of AZN 211,624 thousand and AZN 70,566 thousand derive from two and one customer, which represent 38% and 20% of total construction revenue, respectively.

Revenues from foreign construction contracts mainly consist of revenues generated from Belgrade Bypass Project, with a total contract amount of EUR 140 million, the Ruma-Sabac-Loznica Project, with a total contract amount of EUR 467 million, “Repair of the section of M01 Road Kyiv-Chernigiv-Novi Yarylovychi (Lot 1-3)” project, with a total contract amount of EUR 131 million, the “Striy-Ternopl-Kropivnickiy-Znamyanka (km 584+222 - km 704+400)” project, with total contract amount of UAH 735 million, the “Reconstruction of 67 km of the Bishkek-Osh Corridor, section Madaniyyat-Djalal-Abad (km 507.5 – km 574.5)” project, with a total contract amount of USD 57 million.

Construction revenues from BBP and RSL projects were AZN 77,187 thousand and AZN 102,580 thousand in 2021, respectively.

Construction revenues from the “Repair of the section of M01 Road Kyiv-Chernigiv-Novi Yarylovychi (Lot 1-3)” project and “Striy-Ternopl-Kropivnickiy-Znamyanka (km 584+222 - km 704+400)” project were AZN 90,558 thousand and AZN 34,923 thousand in 2021, respectively.

Construction revenues from “Reconstruction of 67 km of the Bishkek-Osh Corridor, section Madaniyyat-Djalal-Abad (km 507.5 – km 574.5)” were AZN 22,413 thousand in 2021.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

*(In thousands of Azerbaijani manats)*

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#### 28. COSTS OF CONSTRUCTION

|  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020<br>(restated/<br>reclassified) |
|--|------------------------------------|---|
| Subcontractor costs                                  | (282,663)                          | (174,122)   |
| Material expenses                                    | (109,791)                          | (76,542)  |
| Salaries and related expenses                        | (39,451)                           | (21,504)  |
| Fuel expenses  | (21,853)                           | (11,855)  |
| Rental expenses less than 12 months and of low value | (16,037)                           | (4,926)   |
| Transportation expenses                              | (12,945)                           | (10,580)  |
| Depreciation of property, plant and equipment        | (11,224)                           | (8,966)   |
| Social security                                      | (5,181)                            | (3,338)   |
| Professional fees                                    | (5,172)                            | (3,679)   |
| Repair and maintenance expenses                      | (4,102)                            | (2,196)   |
| Insurance expenses                                   | (1,569)                            | (1,137)   |
| Security   | (934)                              | (707)   |
| Business trip expenses                               | (848)                              | (238)   |
| Oil and lubricants                                   | (567)                              | (382)   |
| Utility expenses                                     | (532)                              | (921)   |
| Taxes other than income tax                          | (301)                              | (140)   |
| Health and safety expenses                           | (238)                              | (85)  |
| Others   | (450)                              | (237)   |
| <b>Total costs of construction</b>                   | <b><u>(513,858)</u></b>            | <b><u>(321,555)</u></b>   |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### 29. GENERAL AND ADMINISTRATIVE EXPENSES

|  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020<br>(restated/<br>reclassified) |
|--|------------------------------------|---|
| Salaries and related expenses                        | (10,385)                           | (10,745)  |
| Consulting and professional services                 | (3,904)                            | (2,661)   |
| Depreciation and amortization                        | (1,282)                            | (1,114)   |
| Business trip expenses                               | (1,229)                            | (569)   |
| Social security                                      | (976)                              | (1,424)   |
| Bank charges   | (751)                              | (513)   |
| Fuel expenses  | (748)                              | (549)   |
| Rental expenses less than 12 months and of low value | (723)                              | (633)   |
| Communication expenses                               | (503)                              | (349)   |
| Taxes other than income tax                          | (444)                              | (364)   |
| Office supplies                                      | (427)                              | (173)   |
| Utility expenses                                     | (405)                              | (177)   |
| Representative expenses                              | (400)                              | (80)  |
| Repair and maintenance expenses                      | (312)                              | (287)   |
| Security expense                                     | (257)                              | (153)   |
| Sponsorship expenses                                 | (107)                              | (112)   |
| Advertising expenses                                 | (56)                               | (22)  |
| Transportation expenses                              | (27)                               | (20)  |
| Insurance expenses                                   | (9)                                | (17)  |
| Research and development expenses                    | -                                  | (297)   |
| Others   | (1,011)                            | (738)   |
| <b>Total general and administrative expenses</b>     | <b>(23,956)</b>                    | <b>(20,997)</b>   |

#### 30. OTHER EXPENSES

|                                       | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|---------------------------------------|------------------------------------|------------------------------------|
| Write-down of slow moving inventories | (578)                              | (77)                               |
| Others                                | (446)                              | (642)                              |
| <b>Total other expenses</b>           | <b>(1,024)</b>                     | <b>(719)</b>                       |

#### 31. OTHER INCOME

|  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|--|------------------------------------|------------------------------------|
| Proceeds from sales of materials                   | 1,122                              | 1,009                              |
| Income from collected insurance premiums           | 431                                | -                                  |
| Income from collected penalties from third parties | 17                                 | 111                                |
| Others   | 603                                | 960                                |
| <b>Total other income</b>                          | <b>2,173</b>                       | <b>2,080</b>                       |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### 32. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases related to assets and liabilities in accordance with the statutory tax regulations of the countries where the Group operates, which differ from IFRS.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2021 and 2020 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases differences for certain assets.

Tax legislation of the Republic of Azerbaijan, the Republic of Serbia, the Republic of Ukraine, the Republic of Kyrgyzstan in particular may give rise to varying interpretations and amendments. In addition, as management’s interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result, the Group may be assessed additional taxes, penalties and interest which could be material for these consolidated financial statements.

Deferred income taxes in the consolidated statement of financial position as at December 31, 2021 and 2020 can be reconciled as follows:

|   | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|---|------------------------------------|------------------------------------|
| Deferred income tax (liabilities)/assets            | (646)                              | 724                                |
| <b>Net deferred income tax (liabilities)/assets</b> | <b>(646)</b>                       | <b>724</b>                         |

Relationships between taxable and accounting profit for the year are explained as follows:

|  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|--|------------------------------------|------------------------------------|
| <b>Profit before income tax</b>                    | <b>10,828</b>                      | <b>4,477</b>                       |
| Statutory income tax rates                         |                                    |                                    |
| Theoretical tax at the statutory tax rate          | (2,213)                            | (918)                              |
| Change in unrecognized deferred income tax balance | (1,019)                            | -                                  |
| Tax effect of permanent differences                | (1,069)                            | (496)                              |
| <b>Income tax expense</b>                          | <b>(4,301)</b>                     | <b>(1,414)</b>                     |
| Current income tax expense                         | (2,930)                            | (2,550)                            |
| Change in deferred income tax balance              | (1,371)                            | 1,136                              |
| <b>Income tax expense</b>                          | <b>(4,301)</b>                     | <b>(1,414)</b>                     |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

|  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|--|------------------------------------|------------------------------------|
| <b>Deferred income tax (liabilities)/assets</b>                                  |                                    |                                    |
| <b>As at January 1</b>   | <b>724</b>                         | <b>(350)</b>                       |
| Translation to presentation currency   | 1                                  | (62)                               |
| Change in deferred income tax balances recognized in consolidated profit or loss | (1,371)                            | 1,136                              |
| <b>As at December 31</b>   | <b>(646)</b>                       | <b>724</b>                         |

The movement in deferred income tax liabilities and assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

|   | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|---|------------------------------------|------------------------------------|
| <b>Deductible temporary differences:</b>      |                                    |                                    |
| Taxes losses carry forward                    | 15,974                             | 4,942                              |
| Trade and other payables                      | 9,448                              | 4,178                              |
| Advance paid to subcontractors                | 7,113                              | 6,407                              |
| Inventories                                   | 5,466                              | 21,565                             |
| Loans Issued                                  | 1,444                              | -                                  |
| Lease liability                               | 1,030                              | 1,016                              |
| Borrowings                                    | 825                                | 198                                |
| Payable to employees                          | 323                                | -                                  |
| Prepayment for inventory and services         | 146                                | -                                  |
| Prepayments for property, plant and equipment | 92                                 | 92                                 |
| Intangible assets                             | 20                                 | 16                                 |
| Deposits from subcontractors                  | 15                                 | 76                                 |
| Other liabilities                             | 461                                | 219                                |
| <b>Total deductible temporary differences</b> | <b>42,357</b>                      | <b>38,709</b>                      |

|  | Year ended<br>December 31,<br>2021 | Year ended<br>December 31,<br>2020 |
|--|------------------------------------|------------------------------------|
| <b>Taxable temporary differences:</b>                        |                                    |                                    |
| Property, plant and equipment                                | (13,464)                           | (10,386)                           |
| Contract assets  | (11,933)                           | (15,914)                           |
| Advances from subcontractors                                 | (7,938)                            | (2,589)                            |
| Trade and other receivables                                  | (3,487)                            | (2,815)                            |
| Right-of-use assets  | (1,003)                            | (997)                              |
| Cash and cash equivalents                                    | (138)                              | -                                  |
| Refundable deposits with customers                           | (36)                               | (36)                               |
| Prepayment for inventory and services                        | -                                  | (1,200)                            |
| Payable to employees   | -                                  | (296)                              |
| <b>Total taxable temporary differences</b>                   | <b>(37,999)</b>                    | <b>(34,233)</b>                    |
| <b>Net deductible temporary differences</b>                  | <b>4,358</b>                       | <b>4,476</b>                       |
| <b>Deferred income tax assets before valuation allowance</b> | <b>373</b>                         | <b>724</b>                         |
| <b>Net deferred income tax asset not recognized</b>          | <b>(1,019)</b>                     | <b>-</b>                           |
| <b>Net deferred income tax liability</b>                     | <b>(646)</b>                       | <b>724</b>                         |

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

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According to the current tax legislation of the Group companies' tax losses and current tax assets of different Group companies cannot 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 income tax assets and liabilities are offset only when they relate to the same taxable entity.

### **33. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Group is a party to financial instruments with contingency risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking contingency commitments and contingencies as it does for provisions.

#### **Other off-balance sheet commitments**

The Group had no material commitments for capital expenditures outstanding as at December 31, 2021 and 2020.

#### **Legal proceedings**

From time to time and in the normal course of business, claims against the Group may receive from customers and counterparties. Management is of the opinion that no material un-accrued losses will be incurred and accordingly no provision has been made in these financial statements.

#### **Taxation**

Provisions of the tax legislation of the Republic of Azerbaijan are sometimes inconsistent and may have more than one interpretation, which allows the tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, be attributed to the tax treatment of financial instruments/ derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

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Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates.

#### **34. TRANSACTIONS WITH RELATED PARTIES**

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Group; and that have joint control over the Group;
- (b) Associates – enterprises on which the Group has significant influence and which are neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Group is a venture;
- (d) Members of key management personnel of the Group or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.



## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

The Group had the following transactions outstanding as at December 31, 2021 and 2020 with related parties:

|   | December 31, 2021         |  | December 31, 2020         |   |
|---|---------------------------|--|---------------------------|---|
|   | Related party<br>balances | Total category as per<br>the consolidated<br>financial statements<br>caption | Related party<br>balances | Total category as<br>per the<br>consolidated<br>financial statements<br>caption |
| <b>Loans issued, net of<br/>allowance for ECL</b>             |                           | <b>3,058</b>   |                           | <b>3,265</b>  |
| - <i>Loans issued to related<br/>parties</i>                  | 3,058                     |  | 3,041                     |   |
| <b>Trade and other receivables</b>                            |                           | <b>68,638</b>  |                           | <b>86,282</b>   |
| - <i>Trade and other receivables<br/>from related parties</i> | 21,723                    |  | 1,341                     |   |
| <b>Other Assets</b>   |                           | <b>2,994</b>   |                           | <b>1,667</b>  |
| <i>Other assets</i>   | 58                        |  | -                         |   |
| <b>Advance paid to<br/>subcontractors</b>                     |                           | <b>41,504</b>  |                           | <b>17,983</b>   |
| - <i>Advances paid to related<br/>parties</i>                 | 276                       |  | 580                       |   |
| <b>Trade and other payables</b>                               |                           | <b>(95,909)</b>  |                           | <b>(60,856)</b>   |
| - <i>Trade and payables to<br/>related parties</i>            | (30,197)                  |  | (217)                     |   |
| <b>Payable to employees</b>                                   |                           | <b>(5,240)</b>   |                           | <b>(3,016)</b>  |
| - <i>Salary payables to related<br/>parties</i>               | (2,033)                   |  | (108)                     |   |
| <b>Advances received from<br/>customers</b>                   |                           | <b>(139,384)</b>   |                           | <b>(119,242)</b>  |
| <i>Advances received from<br/>customers</i>                   | (1,111)                   |  | -                         |   |
| <b>General and administrative<br/>expenses</b>                |                           | <b>(23,956)</b>  |                           | <b>(20,997)</b>   |
| - <i>Rental expenses</i>                                      | (58)                      |  | -                         |   |
| - <i>Business trips</i>                                       | (568)                     |  | -                         |   |
| - <i>Professional services</i>                                | (43)                      |  | -                         |   |

**“AZVIRT” LIMITED LIABILITY COMPANY**

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

*(In thousands of Azerbaijani manats)*

|   | December 31, 2021         |  | December 31, 2020         |   |
|---|---------------------------|--|---------------------------|---|
|   | Related party<br>balances | Total category as<br>per the consolidated<br>financial statements<br>caption | Related party<br>balances | Total category as<br>per the<br>consolidated<br>financial statements<br>caption |
| <b>Cost of construction</b>                                     |                           | <b>(513,858)</b>   |                           | <b>(321,555)</b>  |
| <i>-Rental expense</i>  | (1,182)                   |  | (282)                     |   |
| <i>- Subcontractors</i>   | (28,656)                  |  | (2,246)                   |   |
| <b>Revenue</b>  |                           | <b>563,201</b>   |                           | <b>354,756</b>  |
| <i>Revenue</i>  | 5,178                     |  | -                         |   |
| <b>Expected credit loss charge<br/>for financial assets</b>     |                           | <b>(7,609)</b>   |                           | <b>(1,645)</b>  |
| <i>Expected credit loss charge for<br/>financial assets</i>     | (3,173)                   |  | -                         |   |
| <b>Impairment charge for non-<br/>financial assets</b>          |                           | <b>(1,674)</b>   |                           | <b>-</b>  |
| <i>Expected credit loss charge for<br/>non-financial assets</i> | (580)                     |  | -                         |   |

The remuneration of directors and other members of key management was as follows:

|   | December 31, 2021         |   | December 31, 2020         |   |
|---|---------------------------|---|---------------------------|---|
|   | Related party<br>balances | Total category<br>as per the<br>consolidated<br>statement of<br>comprehensive<br>income | Related party<br>balances | Total category<br>as per the<br>consolidated<br>statement of<br>comprehensive<br>income |
| <b>Key management personnel<br/>compensation:</b> |                           |   |                           |   |
| <i>- short-term employee benefits</i>             | 4,086                     | 55,993  | 3,122                     | 37,011  |
| <b>Total</b>                                      | <b>4,086</b>              | <b>55,993</b>   | <b>3,122</b>              | <b>37,011</b>   |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2021 and 2020 the Group had no financial instruments measured at fair value.

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

|  | Date of valuation | Quoted prices in active markets (Level 1) | Fair value measurement using            |   | Total 2021 |
|--|-------------------|---|---|---|------------|
|  |                   |   | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |            |
| <b>Assets for which fair values are disclosed</b>      |                   |   |   |   |            |
| Refundable deposits with the customers                 | December 31, 2021 | -   | -                                       | 26,203                                    | 26,203     |
| Restricted deposits                                    | December 31, 2021 | -   | -                                       | 58,545                                    | 58,545     |
| Loans issued   | December 31, 2021 | -   | -                                       | 3,058                                     | 3,058      |
| Contract assets  | December 31, 2021 | -   | -                                       | 17,398                                    | 17,398     |
| Trade and other receivables                            | December 31, 2021 | -   | -                                       | 68,638                                    | 68,638     |
| Cash and cash equivalents                              | December 31, 2021 | 27,270                                    | -                                       | -   | 27,270     |
| Other financial assets                                 | December 31, 2021 | -   | -                                       | 267                                       | 267        |
| <b>Liabilities for which fair values are disclosed</b> |                   |   |   |   |            |
| Lease liability  | December 31, 2021 | -   | -                                       | 14,392                                    | 14,392     |
| Borrowings   | December 31, 2021 | -   | -                                       | 48,496                                    | 48,496     |
| Trade and other payables                               | December 31, 2021 | -   | -                                       | 95,909                                    | 95,909     |
| Deposits from subcontractors                           | December 31, 2021 | -   | -                                       | 6,513                                     | 6,513      |
| Payable to employees                                   | December 31, 2021 | -   | -                                       | 5,240                                     | 5,240      |
| Other financial liabilities                            | December 31, 2021 | -   | -                                       | 1,557                                     | 1,557      |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

|  | Date of valuation | Quoted prices in active markets (Level 1) | Fair value measurement using            |   | Total 2020 |
|--|-------------------|---|---|---|------------|
|  |                   |   | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |            |
| <b>Assets for which fair values are disclosed</b>      |                   |   |   |   |            |
| Refundable deposits with the customers                 | December 31, 2020 |   |   | 14,368                                    | 14,368     |
| Loans issued   | December 31, 2020 | -   | -                                       | 3,265                                     | 3,265      |
| Contract assets  |                   | -   | -                                       | 15,914                                    | 15,914     |
| Trade and other receivables                            | December 31, 2020 | -   | -                                       | 86,282                                    | 86,282     |
| Cash and cash equivalents                              | December 31, 2020 | 22,496                                    | -                                       | -   | 22,496     |
| Other financial assets                                 | December 31, 2020 | -   | -                                       | 205                                       | 205        |
| <b>Liabilities for which fair values are disclosed</b> |                   |   |   |   |            |
| Finance lease obligation                               | December 31, 2020 | -   | -                                       | 5,159                                     | 5,159      |
| Borrowings   | December 31, 2020 | -   | -                                       | 19,769                                    | 19,769     |
| Trade and other payables                               | December 31, 2020 | -   | -                                       | 60,856                                    | 60,856     |
| Deposits from subcontractors                           | December 31, 2020 | -   | -                                       | 3,792                                     | 3,792      |
| Payable  | December 31, 2020 | -   | -                                       | 3,016                                     | 3,016      |
| Other financial liabilities                            | December 31, 2020 | -   | -                                       | 88  | 88         |

#### Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group’s financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

#### Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without specific maturity and variable rate financial instruments.

#### Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

### 36. RISK MANAGEMENT POLICIES

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

- Credit risk;
- Liquidity risk
- Market risk.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

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

#### Credit risk

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

#### Maximum exposure

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

#### Liquidity risk

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

An analysis of the liquidity and interest rate risks is presented in the following table.

The tables have been drawn up to detail as at December 31, 2021:

|   | Weighted<br>average<br>effective<br>interest rate | Up to<br>1 month | 1 month to<br>3 months | 3 months<br>to 1 year | 1 year to<br>5 years | More than<br>5 years | December 31,<br>2021 |
|---|---|------------------|------------------------|-----------------------|----------------------|----------------------|----------------------|
| <b>Financial assets:</b>                  |   |                  |                        |                       |                      |                      |                      |
| Refundable deposits with<br>the customers |   | -                | -                      | -                     | 26,203               | -                    | 26,203               |
| Restricted deposits                       |   | -                | -                      | -                     | 58,545               | -                    | 58,545               |
| Loans issued                              |   | -                | -                      | -                     | 3,058                | -                    | 3,058                |
| Trade and other receivables               |   | 47,031           | 19,611                 | 1,996                 | -                    | -                    | 68,638               |
| Contract assets                           |   | 12,627           | 4,771                  | -                     | -                    | -                    | 17,398               |
| Cash and cash equivalents                 |   | 27,270           | -                      | -                     | -                    | -                    | 27,270               |
| Other financial assets                    |   | 209              | -                      | 58                    | -                    | -                    | 267                  |
| <b>Total financial assets</b>             |   | <b>87,137</b>    | <b>24,382</b>          | <b>2,054</b>          | <b>87,806</b>        | <b>-</b>             | <b>201,379</b>       |
| <b>Financial liabilities:</b>             |   |                  |                        |                       |                      |                      |                      |
| Lease liability                           | 3.10%   | 62               | 65                     | 469                   | 13,007               | 789                  | 14,392               |
| Borrowings                                | 6.47%   | 14,202           | 1,151                  | 12,742                | 20,304               | 97                   | 48,496               |
| Trade and other payables                  | 4.30%   | 55,268           | 18,325                 | 13,902                | 8,414                | -                    | 95,909               |
| Deposits from<br>subcontractors           |   | -                | -                      | 6,513                 | -                    | -                    | 6,513                |
| Payable to employees                      |   | 5,240            | -                      | -                     | -                    | -                    | 5,240                |
| Other financial liabilities               |   | 1,557            | -                      | -                     | -                    | -                    | 1,557                |
| <b>Total financial liabilities</b>        |   | <b>76,329</b>    | <b>19,541</b>          | <b>33,626</b>         | <b>41,725</b>        | <b>886</b>           | <b>172,107</b>       |
| Liquidity gap                             |   | 10,808           | 4,841                  | (31,572)              | 46,081               | (886)                | 29,272               |
| <b>Cumulative liquidity gap</b>           |   | <b>10,808</b>    | <b>15,649</b>          | <b>(15,923)</b>       | <b>30,158</b>        | <b>29,272</b>        |                      |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

The tables have been drawn up to detail as at December 31, 2020:

|   | Weighted<br>average<br>effective<br>interest rate | Up to<br>1 month | 1 month to<br>3 months | 3 months<br>to 1 year | 1 year to 5<br>years | More than<br>5 years | December 31,<br>2020 |
|---|---|------------------|------------------------|-----------------------|----------------------|----------------------|----------------------|
| <b>Financial assets:</b>                  |   |                  |                        |                       |                      |                      |                      |
| Refundable deposits with<br>the customers |   | -                | -                      | 468                   | 13,900               | -                    | 14,368               |
| Loans issued                              | 5.55%   | 3,133            | -                      | 132                   | -                    | -                    | 3,265                |
| Trade and other receivables               |   | 84,499           | 104                    | 1,679                 | -                    | -                    | 86,282               |
| Cash and cash equivalents                 |   | 22,496           | -                      | -                     | -                    | -                    | 22,496               |
| Other financial assets                    |   | 205              | -                      | -                     | -                    | -                    | 205                  |
| <b>Total financial assets</b>             |   | <b>110,333</b>   | <b>104</b>             | <b>2,279</b>          | <b>13,900</b>        | <b>-</b>             | <b>126,616</b>       |
| <b>Financial liabilities:</b>             |   |                  |                        |                       |                      |                      |                      |
| Lease liability                           | 5.13%   | 260              | 970                    | 1,787                 | 1,329                | 813                  | 5,159                |
| Borrowings                                | 5.97%   | 817              | 747                    | 3,634                 | 14,571               | -                    | 19,769               |
| Trade and other payables                  |   | 58,159           | 2,665                  | 32                    | -                    | -                    | 60,856               |
| Deposits from<br>subcontractors           |   | -                | -                      | 3,792                 | -                    | -                    | 3,792                |
| Payable to employees                      |   | 3,016            | -                      | -                     | -                    | -                    | 3,016                |
| Other financial liabilities               |   | 88               | -                      | -                     | -                    | -                    | 88                   |
| <b>Total financial liabilities</b>        |   | <b>62,340</b>    | <b>4,382</b>           | <b>9,245</b>          | <b>15,900</b>        | <b>813</b>           | <b>92,680</b>        |
| Liquidity gap                             |   | 47,993           | (4,278)                | (6,966)               | (2,000)              | (813)                | 33,936               |
| <b>Cumulative liquidity gap</b>           |   | <b>47,993</b>    | <b>43,715</b>          | <b>36,749</b>         | <b>34,749</b>        | <b>33,936</b>        |                      |

Further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

The maturity analysis of financial liabilities at December 31, 2021 is as follows:

|   | Up to<br>1 month | 1 month to<br>3 months | 3 month to<br>1 year | 1 year to<br>5 years | More than 5<br>years | December 31,<br>2021<br>Total |
|---|------------------|------------------------|----------------------|----------------------|----------------------|-------------------------------|
| <b>FINANCIAL LIABILITIES</b>                            |                  |                        |                      |                      |                      |                               |
| Lease liability   | 71               | 79                     | 551                  | 13,344               | 2,847                | 16,892                        |
| Borrowings  | 14,240           | 1,615                  | 14,029               | 20,723               | 111                  | 50,718                        |
| Trade and other payables                                | -                | -                      | 1,100                | 7,476                | -                    | 8,576                         |
| <b>Total interest bearing<br/>financial liabilities</b> | <b>14,311</b>    | <b>1,694</b>           | <b>15,680</b>        | <b>41,543</b>        | <b>2,958</b>         | <b>76,186</b>                 |
| Trade and other payables                                | 55,268           | 18,325                 | 12,802               | 938                  | -                    | 87,333                        |
| Deposits from subcontractors                            | -                | -                      | 6,513                | -                    | -                    | 6,513                         |
| Payable to employees                                    | 5,240            | -                      | -                    | -                    | -                    | 5,240                         |
| Other financial liabilities                             | 1,557            | -                      | -                    | -                    | -                    | 1,557                         |
| <b>TOTAL FINANCIAL<br/>LIABILITIES</b>                  | <b>76,376</b>    | <b>20,019</b>          | <b>34,995</b>        | <b>42,481</b>        | <b>2,958</b>         | <b>176,829</b>                |

The maturity analysis of financial liabilities at December 31, 2020 is as follows:

|   | Up to<br>1 month | 1 month to<br>3 months | 3 month to<br>1 year | 1 year to<br>5 years | More than 5<br>years | December 31,<br>2020<br>Total |
|---|------------------|------------------------|----------------------|----------------------|----------------------|-------------------------------|
| <b>FINANCIAL LIABILITIES</b>                            |                  |                        |                      |                      |                      |                               |
| Lease liability   | 283              | 1,023                  | 1,876                | 1,681                | 2,944                | 7,807                         |
| Borrowings  | 824              | 749                    | 4,212                | 15,357               | -                    | 21,142                        |
| <b>Total interest bearing<br/>financial liabilities</b> | <b>1,107</b>     | <b>1,772</b>           | <b>6,088</b>         | <b>17,038</b>        | <b>2,944</b>         | <b>28,949</b>                 |
| Trade and other payables                                | 58,159           | 2,665                  | 32                   | -                    | -                    | 60,856                        |
| Deposits from subcontractors                            | -                | -                      | 3,792                | -                    | -                    | 3,792                         |
| Payable to employees                                    | 3,016            | -                      | -                    | -                    | -                    | 3,016                         |
| Other financial liabilities                             | 88               | -                      | -                    | -                    | -                    | 88                            |
| <b>TOTAL FINANCIAL<br/>LIABILITIES</b>                  | <b>62,370</b>    | <b>4,437</b>           | <b>9,912</b>         | <b>17,038</b>        | <b>2,944</b>         | <b>96,701</b>                 |

#### Market risk

Market risk arises from fluctuations in market factors, including exchange rates, interest rates and commodity prices. Movements in these factors may affect the Group’s income and expenses, or the value of its financial instruments. The objective of the Group’s management of market risk is to maintain this risk within acceptable parameters, whilst optimizing returns.

Risk of changes in prices of materials and services.

The Group is exposed to changes in the prices of materials and services that are used in the process of construction. The Group manages these risks by working with reliable suppliers, business relationships with whom had developed over a long time, and the search for a new, more affordable supply of resources.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### Interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

#### Impact on operating profit:

|                                       | As at December 31,<br>2021 |                      | As at December 31,<br>2020 |                      |
|---------------------------------------|----------------------------|----------------------|----------------------------|----------------------|
|                                       | Interest rate<br>+1%       | Interest rate<br>-1% | Interest rate<br>+1%       | Interest rate<br>-1% |
| <b>Financial liabilities:</b>         |                            |                      |                            |                      |
| Lease liability                       | 143                        | (143)                | 52                         | (52)                 |
| Borrowings                            | 484                        | (484)                | 198                        | (198)                |
| <b>Net impact on operating profit</b> | <b>627</b>                 | <b>(627)</b>         | <b>250</b>                 | <b>(250)</b>         |

#### Geographical concentration

The Management exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

The geographical concentration of assets and liabilities is set out below:

|  | The Republic<br>of Azerbaijan | OECD<br>countries | Non-OECD<br>countries | December 31,<br>2021,<br>Total |
|--|-------------------------------|-------------------|-----------------------|--------------------------------|
| <b>FINANCIAL ASSETS</b>                |                               |                   |                       |                                |
| Refundable deposits with the customers | -                             | -                 | 26,203                | 26,203                         |
| Restricted deposits                    | -                             | -                 | 58,545                | 58,545                         |
| Loans issued                           | -                             | -                 | 3,058                 | 3,058                          |
| Trade and other receivables            | 12,316                        | 143               | 56,179                | 68,638                         |
| Cash and cash equivalents              | 859                           | -                 | 26,411                | 27,270                         |
| Contract assets                        | 8,464                         | -                 | 8,934                 | 17,398                         |
| Other financial assets                 | 134                           | -                 | 133                   | 267                            |
| <b>TOTAL FINANCIAL ASSETS</b>          | <b>21,773</b>                 | <b>143</b>        | <b>179,463</b>        | <b>201,379</b>                 |
| <b>FINANCIAL LIABILITIES</b>           |                               |                   |                       |                                |
| Lease liability                        | 954                           | -                 | 13,438                | 14,392                         |
| Borrowings                             | 29,843                        | -                 | 18,653                | 48,496                         |
| Trade and other payables               | 11,821                        | 130               | 83,958                | 95,909                         |
| Deposits from subcontractors           | -                             | -                 | 6,513                 | 6,513                          |
| Payable to employees                   | 2,577                         | -                 | 2,663                 | 5,240                          |
| Other financial liabilities            | 71                            | -                 | 1,486                 | 1,557                          |
| <b>TOTAL FINANCIAL LIABILITIES</b>     | <b>45,266</b>                 | <b>130</b>        | <b>126,711</b>        | <b>172,107</b>                 |
| <b>NET POSITION</b>                    | <b>(23,493)</b>               | <b>13</b>         | <b>52,752</b>         | <b>29,272</b>                  |



## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

|  | The Republic<br>of Azerbaijan | OECD<br>countries | Non-OECD<br>countries | December 31,<br>2020,<br>Total |
|--|-------------------------------|-------------------|-----------------------|--------------------------------|
| <b>FINANCIAL ASSETS</b>                |                               |                   |                       |                                |
| Refundable deposits with the customers | -                             | -                 | 14,368                | 14,368                         |
| Loans issued                           | 224                           | -                 | 3,041                 | 3,265                          |
| Trade and other receivables            | 26,596                        | 348               | 59,338                | 86,282                         |
| Cash and cash equivalents              | 522                           | -                 | 21,974                | 22,496                         |
| Other financial assets                 | 120                           | -                 | 85                    | 205                            |
| <b>TOTAL FINANCIAL ASSETS</b>          | <b>27,462</b>                 | <b>348</b>        | <b>98,806</b>         | <b>126,616</b>                 |
| <b>FINANCIAL LIABILITIES</b>           |                               |                   |                       |                                |
| Lease liability                        | 887                           | -                 | 4,272                 | 5,159                          |
| Borrowings                             | 13,513                        | -                 | 6,256                 | 19,769                         |
| Trade and other payables               | 10,655                        | 61                | 50,140                | 60,856                         |
| Deposits from subcontractors           | -                             | -                 | 3,792                 | 3,792                          |
| Payable to employees                   | 2,380                         | -                 | 636                   | 3,016                          |
| Other financial liabilities            | 82                            | -                 | 6                     | 88                             |
| <b>TOTAL FINANCIAL LIABILITIES</b>     | <b>27,517</b>                 | <b>61</b>         | <b>65,102</b>         | <b>92,680</b>                  |
| <b>NET POSITION</b>                    | <b>(55)</b>                   | <b>287</b>        | <b>33,704</b>         | <b>33,936</b>                  |

#### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

The Group’s exposure to foreign currency exchange rate risk is presented in the table below:

|  | AZN            | USD          | EUR             | Other<br>currencies<br>(RSD, KGS,<br>BAM and<br>UAH) | December 31,<br>2021<br>Total |
|--|----------------|--------------|-----------------|--|-------------------------------|
| <b>FINANCIAL ASSETS</b>                |                |              |                 |  |                               |
| Refundable deposits with the customers | -              | -            | -               | 26,203   | 26,203                        |
| Restricted deposits                    | -              | -            | -               | 58,545   | 58,545                        |
| Loans issued                           | -              | -            | -               | 3,058  | 3,058                         |
| Trade and other receivables            | 12,316         | 84           | 6,708           | 49,530   | 68,638                        |
| Cash and cash equivalents              | 659            | 317          | 9,812           | 16,482   | 27,270                        |
| Contract assets                        | 8,464          | -            | -               | 8,934  | 17,398                        |
| Other financial assets                 | 134            | -            | -               | 133  | 267                           |
| <b>TOTAL FINANCIAL ASSETS</b>          | <b>21,573</b>  | <b>401</b>   | <b>16,520</b>   | <b>162,885</b>                                       | <b>201,379</b>                |
| <b>FINANCIAL LIABILITIES</b>           |                |              |                 |  |                               |
| Lease liability                        | 954            | -            | 12,668          | 770  | 14,392                        |
| Borrowings                             | 7,232          | 739          | 26,425          | 14,100   | 48,496                        |
| Trade and other payables               | 11,819         | 434          | 11,500          | 72,156   | 95,909                        |
| Deposits from subcontractors           | -              | -            | -               | 6,513  | 6,513                         |
| Payable to employees                   | 2,577          | 4            | -               | 2,659  | 5,240                         |
| Other financial liabilities            | -              | 71           | -               | 1,486  | 1,557                         |
| <b>TOTAL FINANCIAL LIABILITIES</b>     | <b>22,582</b>  | <b>1,248</b> | <b>50,593</b>   | <b>97,684</b>  | <b>172,107</b>                |
| <b>OPEN CURRENCY POSITION</b>          | <b>(1,009)</b> | <b>(847)</b> | <b>(34,073)</b> | <b>65,201</b>  | <b>29,272</b>                 |
| <br>                                   |                |              |                 |  |                               |
|  | AZN            | USD          | EUR             | Other<br>currencies<br>(RSD, KGS<br>and UAH)         | December 31,<br>2020<br>Total |
| <b>FINANCIAL ASSETS</b>                |                |              |                 |  |                               |
| Refundable deposits with the customers | -              | 84           | 5,540           | 8,744  | 14,368                        |
| Loans issued                           | 224            | -            | 2,621           | 420  | 3,265                         |
| Trade and other receivables            | 26,596         | 51           | 43,975          | 15,660   | 86,282                        |
| Cash and cash equivalents              | 485            | 68           | 43              | 21,900   | 22,496                        |
| Other financial assets                 | 120            | -            | -               | 85   | 205                           |
| <b>TOTAL FINANCIAL ASSETS</b>          | <b>27,425</b>  | <b>203</b>   | <b>52,179</b>   | <b>46,809</b>  | <b>126,616</b>                |
| <b>FINANCIAL LIABILITIES</b>           |                |              |                 |  |                               |
| Lease liability                        | 887            | -            | -               | 4,272  | 5,159                         |
| Borrowings                             | 5,719          | 305          | 13,141          | 604  | 19,769                        |
| Trade and other payables               | 10,655         | 397          | 2,590           | 47,214   | 60,856                        |
| Deposits from subcontractors           | -              | -            | -               | 3,792  | 3,792                         |
| Payable to employees                   | 2,380          | -            | -               | 636  | 3,016                         |
| Other financial liabilities            | 82             | -            | -               | 6  | 88                            |
| <b>TOTAL FINANCIAL LIABILITIES</b>     | <b>19,723</b>  | <b>702</b>   | <b>15,731</b>   | <b>56,524</b>  | <b>92,680</b>                 |
| <b>OPEN CURRENCY POSITION</b>          | <b>7,702</b>   | <b>(499)</b> | <b>36,448</b>   | <b>(9,715)</b>                                       | <b>33,936</b>                 |

## “AZVIRT” LIMITED LIABILITY COMPANY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In thousands of Azerbaijani manats)

#### Currency risk sensitivity

The following tables detail the Group’s sensitivity to a 10% increase and decrease in the USD and EUR against the AZN. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign currency exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

|   | As at December 31, 2021 |                 |                 |                 |                   |                   |
|---|-------------------------|-----------------|-----------------|-----------------|-------------------|-------------------|
|   | AZN/USD<br>+10%         | AZN/USD<br>-10% | AZN/EUR<br>+10% | AZN/EUR<br>-10% | AZN/OTHER<br>+10% | AZN/OTHER<br>-10% |
| Net impact on profit before<br>income tax | (85)                    | 85              | (3,407)         | 3,407           | 7,525             | (7,525)           |

|   | As at December 31, 2020 |                 |                 |                 |                   |                   |
|---|-------------------------|-----------------|-----------------|-----------------|-------------------|-------------------|
|   | AZN/USD<br>+10%         | AZN/USD<br>-10% | AZN/EUR<br>+10% | AZN/EUR<br>-10% | AZN/OTHER<br>+10% | AZN/OTHER<br>-10% |
| Net impact on profit before<br>income tax | (50)                    | 50              | 3,645           | (3,645)         | (592)             | 592               |

#### Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

#### Capital management

The Group’s objectives in the process of capital management are maintaining the Group’s ability to follow the going concern principle to provide benefits to interested parties, and also maintaining the optimal structure of involved and own funds.

The management of the Group regularly analyzes the structure of its capital. On basis of results of this analysis, the Group takes measures, which are aimed at maintenance of total structure of the capital balance.

The main financial liabilities of the Group are borrowings, and trade and other payables. The main aim of these financial instruments is to involve facilities for the Group's activity.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, sell assets, reduce debt or increase its debt.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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#### **Limitations of sensitivity analysis**

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors.

It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate the potential risk that only represents the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

#### **37. EVENTS AFTER THE REPORTING PERIOD**

In 2019, “AzVirt” LLC started the construction of the “Repair of the section of M01 Road Kyiv-Chernigiv-Noviy Yarylovychi (Lot 1-3)” project in Ukraine with a total length of 80 km (Lot 1 - 18 km, Lot 2 - 25 km, Lot 3 - 37 km). The construction work was planned to be completed in 2022. 60% of Lot 1 and Lot 2 of the project with a contract value of 131,278,609 Euros have been completed and handed over during the years 2019-2021. “Pasha Bank” OJSC presented a performance guarantee in the amount of 13.1 million Euros and an advance guarantee from the same bank in exchange for an advance of 13.1 million Euros received for the commencement of the work. Based on the completed and handed over works, there was advance reduction in the amount of 12.4 million Euros, but an 11.4 million advance guarantee was reduced from the bank.

Due to the military conflict between Russia and Ukraine escalated on February 24, 2022, the Group managed to bring back more than 100 foreign employees (employees who have received work permits in Ukraine) from Ukraine, and provided the vast majority of them with work in ongoing projects in Azerbaijan. The local citizens working in the project were not dismissed, and their monthly salaries continued to be paid. Although part of the project was damaged during the war, the company's fixed assets and material stocks were not damaged.

The Group management hopes this conflict will end soon and the project will continue. Since the bitumen used in road construction is brought to the country from Russia and Belarus, the possibility of purchasing bitumen from Iran or Romania is currently being studied. After the end of the conflict, the management thinks that they may face problems such as shortage of materials during repair and construction, logistics, inflation and weakening of the national currency. In addition, the management also estimates that there will be a shortage of materials, iron railings and other materials brought to the country from abroad in the same way due to the logistics problem. In February 2022, because of the war, Moody's international rating agency lowered Ukraine's rating from “B3” to “Caa2”. In addition, agriculture, cattle and non-ferrous metal exports, which are the main sources of the country, will also decrease due to the war, which in turn will lead to a decrease in foreign currency inflows to the country.

## **“AZVIRT” LIMITED LIABILITY COMPANY**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)**

*(In thousands of Azerbaijani manats)*

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The Group management follows developments in the current environment and, where appropriate, takes action to minimize any adverse impact. Additional adverse events in political, macroeconomic or international trade conditions may further adversely affect the project’s financial condition and operations in ways that cannot be determined at this time.

On July 21, 2022 the National Bank of Ukraine devalued the Hryvnia by 25% against the US dollar from 29.25 to 36.57 to help the country cope with the growing economic impact of the conflict with Russia.

Subsequently, the Group also signed an agreement with “Lachin Airport” LLC for the construction of “Lachin International Airport” on April 1, 2022.

The Group also signed an agreement with “15 №-li Xüsusi Təyinatlı Yol İstismarı” LLC for the project of dismantling the existing concrete pavement and replacing it with an asphalt-concrete pavement in the 18.00 km section of the Baku-Guba-Russian Federation state border highway in the direction of Baku on May 6, 2022.

On May 30, 2022, “Pasha Bank” OJSC issued a tender guarantee to the Group amounting to EUR 720,000 thousand at the interest rate of 3.0 % per annum maturing on January 31, 2023.

On June 8, 2022, the Group signed a borrowing agreement with “Pasha Bank” OJSC at the amount of USD 2,500 thousand at an interest rate of 4.5 % per annum maturing in 12 months. The first tranche in the amount of USD 1,500 thousand was issued on June 22, 2022 for the ongoing Kyrgyz project.