

**“GLOBAL ENERGY SOLUTIONS” LIMITED
LIABILITY COMPANY**

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor’s Report**

31 December 2022

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INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholders and Management of the Global Energy Solutions LLC.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Global Energy Solutions LLC (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2022, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

We communicate with 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.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

15 September 2022

“GLOBAL ENERGY SOLUTIONS” LIMITED LIABILITY COMPANY
Consolidated Statement of Financial Position

	Note	31 December 2022	31 December 2021
Assets			
Non-current assets			
Property and equipment	8	2,632,789	2,788,867
Right-of-use assets	9	2,575,754	3,840,993
Intangible assets		71,639	55,497
Investment in associate	10	1,075,378	947,361
Loans issued, long term portion	17	594,854	-
Term deposit	15	48,096,075	-
Other assets		814,477	-
Total non-current assets		55,860,966	7,632,718
Current assets			
Inventories	11	1,415,196	1,842,022
Trade and other receivables	12	27,631,835	69,658,735
Prepayments	13	6,899,353	2,181,321
Cash and cash equivalents	14	5,676,733	3,480,806
Contract assets	16	4,158,933	-
Loans issued, short term portion	17	9,090,259	-
Total current assets		54,872,309	77,162,884
Total assets		110,733,275	84,795,602
EQUITY			
Share capital	18	7,595,505	7,595,505
Retained earnings		15,044,609	23,970,722
Currency translation reserve		526,414	16,862
Total equity		23,166,528	31,583,089
Liabilities			
Non-current liabilities			
Loans from shareholders	20	34,421,833	11,000
Borrowings	19	622,929	6,566,328
Lease liabilities	9	1,958,593	2,675,848
Deferred tax liabilities	28	968,089	10,887,442
Other non-current liabilities		-	186,766
Total non-current liabilities		37,971,444	20,327,384
Current liabilities			
Borrowings	19	7,811,295	2,569,965
Lease liabilities	9	819,296	498,886
Trade and other payables	22	13,137,639	18,688,313
Current income tax payable		7,822,721	-
Tax provision	23	19,651,325	11,127,965
Contract liabilities	16	353,027	-
Total current liabilities		49,595,303	32,885,129
Total liabilities		87,566,747	53,212,513
Total liabilities and equity		110,733,275	84,795,602

Approved for issue and signed on 13 September 2023.

Mr. Tamerlan Aliyev
General Director



Ms. Valentina Baghirova
Head of Finance and Accounting Department

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

"GLOBAL ENERGY SOLUTIONS" LIMITED LIABILITY COMPANY
Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In Azerbaijani Manats</i>	Note	2022	2021
Revenue from contracts with customers	24	63,184,225	50,245,393
Cost of sales	25	(37,590,456)	(28,236,998)
Gross profit		25,593,769	22,008,395
Other income		447,299	23,466,343
General and administrative expenses	26	(17,030,785)	(17,129,759)
Other gain/ losses, net		(712,633)	(81,192)
Operating profit		8,297,650	28,263,787
Finance costs	27	(1,691,411)	(1,446,690)
Share of results of associate	10	128,017	201,524
Profit before income tax		6,734,256	27,018,621
Income tax benefit/(expense)	28	2,096,631	(4,802,590)
Profit for the year		8,830,887	22,216,031
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Translation of financial information of foreign operations to presentation currency		509,552	10,394
Total comprehensive income for the year		9,340,439	22,226,425

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

“GLOBAL ENERGY SOLUTIONS” LIMITED LIABILITY COMPANY
Consolidated Statement of Changes in Equity

<i>In Azerbaijani Manats</i>	Share capital	Additional paid-in capital	Currency translation reserve	Retained earnings	Total equity
At 1 January 2021	7,595,505	-	6,468	26,055,729	33,657,702
Profit for the year	-	-	-	22,216,033	22,216,033
Other comprehensive income for the year	-	-	10,394	-	10,394
Total comprehensive income for 2021	-	-	10,394	22,216,033	22,226,427
Deemed dividends	-	-	-	(23,183,262)	(23,183,262)
Dividends declared	-	-	-	(1,117,778)	(1,117,778)
Balance at 31 December 2021	7,595,505	-	16,862	23,970,722	31,583,089
Profit for the year	-	-	-	8,830,887	8,830,887
Other comprehensive loss for the year	-	-	509,552	-	509,552
Total comprehensive income for 2022	-	-	509,552	8,830,887	9,340,439
Deemed dividends	-	-	-	(17,757,000)	(17,757,000)
Balance at 31 December 2022	7,595,505	-	526,414	15,044,609	23,166,528

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

"GLOBAL ENERGY SOLUTIONS" LIMITED LIABILITY COMPANY
Consolidated Statement of Cash Flows

<i>In Azerbaijani Manats</i>	Note	2022	2021
Cash flows from operating activities			
Profit before income tax		6,734,256	27,018,621
Adjustments for:			
Depreciation and amortisation	8,9	1,760,960	1,439,075
Net impairment losses on financial assets	12,15,17	215,740	153,966
Finance costs	27	1,691,411	1,446,690
Finance income		(4,498)	-
Foreign exchange translation differences		371,008	81,191
Share of results of associate	10	(128,017)	(201,524)
Other non-cash operating costs		153,819	-
Loss on disposal of property, plant and equipment		42,291	-
Tax provision		8,523,360	11,127,965
Operating cash flows before working capital changes		19,360,330	41,065,984
Decrease/(increase) in trade and other receivables	12	42,183,010	(18,293,648)
Increase in contract assets	16	(4,158,933)	-
Increase in other assets		(814,475)	-
Increase in prepayments	13	(4,309,426)	(2,054,325)
Decrease/(Increase) in inventories	11	426,826	(1,289,480)
Decrease/(Increase) in trade and other payables	22	(5,161,699)	7,242,230
Increase in contract liabilities	16	353,028	-
Decrease in other non-current liabilities		(186,763)	-
Changes in working capital		28,331,568	(14,395,223)
Interest paid	21	(978,600)	(1,117,994)
Net cash from operating activities		46,713,298	25,552,767
Cash flows from investing activities			
Purchases of property and equipment	8	(551,170)	(757,507)
Acquisition of intangible assets		(25,956)	(1,881)
Placement to deposit	15	(48,620,000)	-
Loans granted	17	(17,514,645)	-
Loans repayment received	17	7,606,483	-
Net cash used in investing activities		(59,105,288)	(759,388)
Cash flows from financing activities			
Proceeds from borrowings	19	43,378,974	15,368,861
Repayment of borrowings	19	(10,110,413)	(12,804,073)
Repayment of lease liabilities – principal	21	(899,016)	(605,811)
Dividends paid to the Company's shareholders		(17,757,000)	(24,301,040)
Net cash from/(used in) financing activities		14,612,545	(22,342,063)
Effect of exchange rate changes on cash and cash equivalents		(24,626)	(338)
Cash and cash equivalents at the beginning of the year	14	3,480,806	1,029,825
Cash and cash equivalents at the end of the year	14	5,676,735	3,480,803

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

1 “GLOBAL ENERGY SOLUTIONS” LLC and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2022 for “GLOBAL ENERGY SOLUTIONS” LLC (the “Company”) and its subsidiaries (the “Group”).

The Company was incorporated and is domiciled in the Republic of Azerbaijan. The Company is a limited liability company and was set up in accordance with the State Registry of Commercial Legal Entities Office of Baku City Tax Department of the Ministry of Taxes of the Republic of Azerbaijan on February 10, 2012 under the registration No.1002454561.

As of 31 December 2022 and 2021 the Group's immediate parent company was Nobel Energy Ltd, and the Group was ultimately controlled by Mr. Nasib Hasanov.

The following shareholders owned the issued shares of the Group:

	31 December 2022, %	31 December 2021, %
Nobel Energy Ltd	90	90
Nobel Oil Investment (UK) Ltd	10	10
Total	100	100

Principal activity. The Group's principal business activity is the provision of technical support services relating to operating and maintenance of gas compression stations and auxiliary equipment, procurement of oilfield equipment, materials and spare parts.

On December 13, 2017, the Group established a wholly owned subsidiary, Glensol LLC (the “Subsidiary”) in the Republic of Kazakhstan. The principal activities of the subsidiary involve provision of repair and maintenance services to all types of mechanical equipment in the oil and gas industry of Kazakhstan. The charter capital of Glensol LLC amounted to KZT 226,900 (AZN 1,068).

On September 2021, the Group established a wholly owned subsidiary, Glensol LLC (the “Subsidiary”) in Georgia. The principal activities of the subsidiary involve provision of repair and maintenance services to all types of mechanical equipment in the oil and gas industry for SOCAR Midstream Operations LLC - Georgian Branch. The charter capital of Glensol LLC amounted to GEL 376,338 (AZN 204,000).

Registered address and place of business. The Company's registered address is Binagadi District, 1B Rashid Behbudov str., apt. 4, Baku, AZ1114, the Republic of Azerbaijan. The Company's principal place of business is 23A “8 Noyabr” avenue, Baku Bay Tower, 15th floor, Baku, AZ1025, the Republic of Azerbaijan.

Presentation currency. These consolidated financial statements are presented in Azerbaijani Manats (“AZN”), unless otherwise stated.

2 Operating Environment of the Group

Republic of Azerbaijan. The Group's operations are mainly located in Azerbaijan. Consequently, the Group is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market. The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by the government as well as crude oil prices and sustainability of Azerbaijani manats.

Recent reforms in support of long-term economic stability and sustainability, fiscal and monetary policies, as well as continuous steps to diversify the economy contributed to the overall positive trends in the macroeconomic environment. Upward trend in oil prices over the 2022, hence significant currency inflows into the country ensured a sustainable exchange rate of the national currency, further strengthened with tight monetary policies of the Central Bank of the Republic of Azerbaijan.

2 Operating Environment of the Group (Continued)

The year of 2022 is marked with higher geo-political tension, rise in global commodity prices and inflation in trade partners, lingering problems in the global value chain and impact of these developments on the global economy at the time when the world is gradually leaving the pandemic behind. Global demand recovering faster than supply, sharp volatility of global commodity prices and inflation in trade partners, as well as higher transportation-logistic costs weighed on inflation in Azerbaijan. The monetary policy was oriented towards easing inflationary pressures by means of monetary factors. Whereas external sector indicators improved in Azerbaijan and economic growth rate increased. The external environment was mainly favourable for Azerbaijan in terms of the balance of payments and support of domestic economic activity, and the strategic foreign exchange reserves kept increasing.

The ongoing effects of the political and economic situation are difficult to predict, but they may have further effects on the economy of Azerbaijan. The Company's Management is monitoring the developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Company's business in the foreseeable future. However, the future effects of the current economic situation are difficult to predict, and the management's current expectations and estimates could differ from the actual results.

3 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Consolidated financial statements. Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and its subsidiary use uniform accounting policies consistent with the Group's policies.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

3 Significant Accounting Policies (Continued)

However, when the Group's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Azerbaijani Manats ("AZN"), which is the Group's presentation currency.

Transactions and balances. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Republic of Azerbaijan ("CBAR") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss and other comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within 'Other gains/(losses), net'. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The Group companies. Loans between the Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between the Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognised 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 foreign operation. In such a case, the foreign exchange gain or loss is recognised in other comprehensive income.

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

- (i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
- (ii) 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);
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2022, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.700 (2021: USD 1 = AZN 1.700), EUR 1 = AZN 1.8114 (2021: EUR 1 = AZN 2.089), KZT 1 = AZN 0.0037 (2021: KZT 1 = AZN 0.0040), GEL 1 = AZN 0,6298 (2021: GEL 1 = AZN 0.5297). The principal average rate of exchange used for translating income and expenses was USD 1 = AZN 1.700 (2021: USD 1 = AZN 1.700), EUR 1 = AZN 1.7886 (2021: EUR 1 = AZN 2.0099), KZT 1 = AZN 0.0037 (2021: KZT 1 = AZN 0.0040), GEL 1 = AZN 0,5877 (2021: GEL 1 = AZN 0.5297).

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

3 Significant Accounting Policies (Continued)

At the end of each reporting period management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

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

Depreciation. Depreciation on items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Machinery and equipment	5
Motor vehicles	5
Computers and office equipment	4
Leasehold improvements	Shorter of useful life and the term of the underlying lease

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

Right-of-use assets. The Group leases various offices, warehouse and vehicles. Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	<u>Useful lives in years</u>
Warehouse	6
Motor vehicles	3
Offices	2

Impairment of non-financial assets. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

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 number of instruments 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.

3 Significant Accounting Policies (Continued)

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. Refer to Note 33.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the 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 amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial instruments – initial recognition. All 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 recognised for financial assets measured at AC, resulting in an immediate accounting loss.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets at 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.

3 Significant Accounting Policies (Continued)

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").

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

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 Group 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 for contract assets. The Group measures ECL and recognises net 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.

Debt instruments measured at AC, trade and other receivables, loans issued and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL.

The Group applies simplified approach for impairment of financial assets. To measure the expected credit losses financial assets have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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 derecognises 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.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g., profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC.

3 Significant Accounting Policies (Continued)

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

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 recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Offsetting financial instruments. Financial assets and liabilities are offset, and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised 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.

Cash and cash equivalents. Cash and cash equivalents include cash in hand and deposits held at call with banks. 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.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at AC using the effective interest method.

Lease liabilities. Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension and termination options are included in the leases across the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

3 Significant Accounting Policies (Continued)

Payments associated with short-term leases of equipment and vehicles are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

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

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Value added tax. The time of a taxable transaction shall be considered the time of payment for the provided goods (work and services). Payment shall be deemed to be made:

- at the time of receipt of cash, at non-cash payment – the time of receipt of funds to his account at the bank or to the account that he may be in charge of or to the account through which he will be entitled to receive the specified funds;
- at the time of cancellation or repayment of a liability in case of mutual settlements;
- for receivables arising from the provision of goods (works, services) - at the time of expiration of the claim period;
- at the time of acquisition (barter) of assets in case of payment in kind;
- at the time of donation in case of in-kind donation;
- at the time of assignment of the right of claim for the assigned amount in case of assignment of the right of claim.

3 Significant Accounting Policies (Continued)

In case of payment before the provision of goods (works, services), the time of the taxable transaction shall be considered the time of the payment. If two or more payments are made for a taxable transaction, each payment shall be deemed made for a separate transaction in the amount of the payment. Issuance of an electronic bill for prepayments received shall not be permitted.

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 recognised in the statement of financial position on a gross basis and disclosed separately as an asset and a liability.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first-in first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Prepayments. 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 or loss when the 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 recognised in profit or loss for the year.

Share capital. Ordinary shares are 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.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note 35.

Revenue recognition. Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of value added taxes.

Sales of goods. Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

If the Group provides any additional services to the customer after control over goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Sales of services. The Group provides services under fixed-price and variable price contracts. If the Group transfers control of a service over time and therefore satisfies a performance obligation over time, revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total expected labour hours. If a performance obligation is not satisfied over time, revenue is recognised at a point in time at which the Group satisfies a performance obligation.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

3 Significant Accounting Policies (Continued)

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such revenue.

Employee benefits. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the social contribution.

Amendment of the consolidated financial statements after issue. Any changes to these consolidated financial statements after issue require approval of the Group's management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Initial recognition of related party transactions. In the normal course of business, the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

ECL measurement. Measurement of ECLs is a significant estimate that involves determination methodology, models, and data inputs. Details of ECL measurement methodology are disclosed in Note 31. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. A 10% increase or decrease in PD and LGD estimates at 31 December 2022 would result in an increase or decrease in total expected credit loss allowances of AZN 768,930 (31 December 2021: by AZN 1,546,268).

Useful lives of property and equipment. The estimation of the useful lives of items of property and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2022 would be to increase it by AZN 149,949 or decrease it by AZN 183,271 (2021: increase or decrease by AZN 60,469).

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Depreciation of right-of-use assets. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices, vehicles and warehouses, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate) the lease.

Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

VAT recoverable. The current tax legislation of the Republic of Azerbaijan provides for the following input VAT recovery options:

- Credit against the output VAT;
- Offset with other corporate tax liabilities;
- Claim for the monetary refund from the National Treasury of the Republic of Azerbaijan.

Management makes an estimation that the Group will offset the VAT recoverable with other corporate tax liabilities.

Extension and termination options. Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices and warehouse, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

Were the estimated leases duration to differ by 10% from management's estimates, the impact for the year ended 31 December 2022 would be to increase/decrease it by AZN 42,836 (2021: AZN 317,232).

5 Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2022:

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Group has not early adopted.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Group is currently assessing the impact of the amendments on its financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).

The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2022, the outstanding balances with related parties were as follows:

	Shareholders	Entities under common control	Associate
<i>In Azerbaijani Manats</i>			
Gross amount of trade receivables	-	6,749,231	916,081
Net impairment losses financial assets	-	(594,899)	(37,740)
Contract assets	-	1,200,000	-
Prepayments	-	1,454,461	-
Lease liability	-	(452,992)	-
Loan issued	594,854	9,090,272	-
Investment in associate	-	-	1,075,378
Trade and other payables	-	(441,897)	(114,046)
Loans from shareholders (5%)	(34,421,833)	-	-

The income and expense items with related parties for the year ended 31 December 2022 were as follows:

	Shareholders	Entities under common control	Associate
<i>In Azerbaijani Manats</i>			
Sales of goods	-	442,647	53,234
Revenue from services rendered	-	2,601,014	643,200
Share of result of associate	-	-	128,017
Subcontracting costs	-	(573,442)	-
Net impairment losses on financial and contract assets	-	(73,728)	-
Professional services fees	-	(1,872,000)	-
Repairs and maintenance	-	(7,148)	-
Technical consulting	-	(17,655,000)	-
Other services	-	(234,272)	-
Finance costs	-	(458,720)	-
Share of result of associate	-	-	128,017
Other gain/losses, net	-	(153,819)	-

7 Balances and Transactions with Related Parties (Continued)

At 31 December 2021, the outstanding balances with related parties were as follows:

	Shareholders	Entities under common control	Associate
<i>In Azerbaijani Manats</i>			
Gross amount of trade receivables	-	7,136,937	307,425
Net impairment losses on financial assets	-	(168,346)	(6,424)
Investment in associate	-	-	947,361
Trade and other payables	-	(4,523,110)	(114,046)
Shareholder related payables	(11,000)	-	-

The income and expense items with related parties for the year ended 31 December 2021 were as follows:

	Shareholder	Entities under common control	Associate
<i>In Azerbaijani Manats</i>			
Sales of goods	-	2,063,962	103,459
Revenue from services rendered	-	9,909,997	-
Share of result of associate	-	-	201,524
Technical consulting	-	(2,400)	(3,506)
Subcontracting costs	-	(267,500)	(91,130)
Net impairment losses on financial and contract assets	-	(135,947)	(4,680)
Professional services fees	-	(1,457,704)	-
Other services	-	(317,676)	-

Key management compensation. Key management includes General Director, Deputy of General Director, Director of Commercial Department, Head of Finance and Accounting Department and Head of Commercial Department.

Key management compensation is presented below:

	2022 Expense	2021 Expense
<i>In Azerbaijani Manats</i>		
- Salaries	688,242	581,719
- Contributions to State pension fund	163,353	134,982
Total key management compensation	851,594	716,701

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8 Property and Equipment

Movements in the carrying amount of property and equipment were as follows:

<i>In Azerbaijani Manats</i>	Machinery and equipment	Motor vehicles	Computers and office equipment	Leasehold improvements	Total
Cost at 1 January 2021	3,063,799	388,923	307,262	-	3,759,984
Accumulated depreciation	(734,126)	(168,823)	(155,224)	-	(1,058,173)
Carrying amount at 1 January 2021	2,329,673	220,100	152,038	-	2,701,811
Additions	252,506	-	96,452	408,549	757,507
Depreciation charge	(455,527)	(55,588)	(77,626)	(81,710)	(670,451)
Carrying amount at 31 December 2021	2,126,652	164,512	170,864	326,839	2,788,867
Cost at 31 December 2021	3,316,305	388,923	403,713	408,549	4,517,490
Accumulated depreciation	(1,189,653)	(224,411)	(232,849)	(81,710)	(1,728,623)
Carrying amount at 31 December 2021	2,126,652	164,512	170,864	326,839	2,788,867
Additions	344,108	63,246	126,582	17,234	551,170
Disposals	(90,675)	-	-	-	(90,675)
Depreciation charge	(427,440)	(49,545)	(41,989)	(145,983)	(664,957)
Accumulated depreciation of disposed assets	48,384	-	-	-	48,384
Carrying amount at 31 December 2022	2,001,029	178,213	255,457	198,090	2,632,789
Cost at 31 December 2022	3,569,738	452,169	530,295	425,783	4,977,985
Accumulated depreciation	(1,568,709)	(273,956)	(274,838)	(227,693)	(2,345,196)
Carrying amount at 31 December 2022	2,001,029	178,213	255,457	198,090	2,632,789

9 Right-of-Use Assets and Lease Liabilities

The Group leases various offices, warehouse, and vehicles. Rental contracts are typically made for fixed periods of 12 months but may have extension options.

<i>In Azerbaijani Manats</i>	Warehouse	Offices	Vehicles	Accommodation	Total
Carrying amount at 1 January 2021	2,212,177	51,400	20,410	-	2,283,987
Additions	-	1,588,165	-	-	1,588,165
Modification	698,537	-	38,927	-	737,464
Depreciation charge	(520,051)	(246,789)	(1,783)	-	(768,623)
Carrying amount at 31 December 2021	2,390,663	1,392,776	57,554	-	3,840,993
Additions	-	-	69,183	131,215	200,398
Modification	(293,918)	(120,672)	35,146	-	(379,444)
Depreciation charge	(524,186)	(474,298)	(39,367)	(48,342)	(1,086,193)
Carrying amount at 31 December 2022	1,572,559	797,806	122,516	82,873	2,575,754

The Group recognised lease liabilities as follows:

<i>In Azerbaijani Manats</i>	31 December 2022	31 December 2021
Current lease liabilities	819,296	498,886
Non-current lease liabilities	1,958,593	2,675,848
Total lease liabilities	2,777,889	3,174,734

Interest expense included in finance costs of 2022 was AZN 272,608 (2021: AZN 463,027). Total cash outflow for leases in 2022 was AZN 548,740 (2021: AZN 770,617).

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

10 Investment in Associate

The table below summarises the movements in the carrying amount of the Group's investment in associate.

<i>In Azerbaijani Manats</i>	2022 Associate	2021 Associate
Carrying amount at 1 January 2022	947,361	745,837
Transfers	-	-
Share of profit of associate	128,017	201,524
Carrying amount at 31 December 2022	1,075,378	947,361

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10 Investment in Associate (Continued)

The Group’s interest in its principal associate was as follows:

Name	2022		2021	
	% ownership interest Held	% ownership interest Held	% ownership interest held	Place of business
Associate				
GVL LLC	51%	Azerbaijan	51%	Azerbaijan

Summarised financial information of an associate is as follows at 31 December 2022:

<i>In Azerbaijani Manats</i>	GVL LLC
Current assets	4,717,505
Non-current assets	1,892,483
Current liabilities	3,154,215
Non-current liabilities	1,347,185
Revenue	8,399,410
Profit for the year	251,013

Summarised financial information of an associate is as follows at 31 December 2021:

<i>In Azerbaijani Manats</i>	GVL LLC
Current assets	3,253,884
Non-current assets	2,359,019
Current liabilities	(1,895,342)
Non-current liabilities	(1,859,990)
Revenue	7,095,231
Profit for the year	395,146

11 Inventories

<i>In Azerbaijani Manats</i>	2022	2021
Goods for resale	839,683	995,537
Consumables	531,234	835,203
Other inventories	44,279	11,282
Total inventories at 31 December	1,415,196	1,842,022

12 Trade and Other Receivables

<i>In Azerbaijani Manats</i>	2022	2021
Trade receivables	26,814,348	43,631,572
Other financial receivables	-	23,429,866
Less credit loss allowance	(2,361,069)	(2,742,982)
Total financial assets within trade and other receivables	24,453,279	64,318,456
VAT recoverable	3,090,129	5,340,134
Other receivables	88,427	145
Total trade and other receivables at 31 December	27,631,835	69,658,735

In 2022, trade receivables of AZN 14,097,658 (2020: AZN 38,625,241) net of credit loss allowance is denominated in foreign currency, mainly.

12 Trade and Other Receivables (Continued)

Other financial receivables represent the amount receivable from a related party in respect to additional capital contribution.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2022 or 31 December 2021, respectively. On that basis, the loss allowance as at 31 December 2022 and 31 December 2021 was determined as follows for trade receivables from customers. The expected credit losses are calculated as the difference between the expected future cash flows and the present value of expected cash flows discounted by the asset's refinancing rate.

The credit loss allowance for trade receivables is determined according to provision matrix presented in the table below for the year ended 31 December 2022..

<i>In % of gross value (in Azerbaijani Manats)</i>	31 December 2022			Net carrying value
	Loss Rate	Gross carrying amount	Lifetime ECL	
Trade receivables				
- current	4%	15,197,589	(673,482)	14,524,107
- less than 30 days overdue	9%	4,354,262	(409,861)	3,944,401
- 30 to 60 days overdue	12%	2,364,770	(274,075)	2,090,695
- 61 to 90 days overdue	16%	3,309,981	(533,982)	2,775,999
- 91 to 180 days overdue	19%	464,621	(89,210)	375,411
- 181 to 360 days overdue	20%	929,951	(187,285)	742,666
- over 360 days overdue	100%	193,174	(193,174)	-
Total		26,814,348	(2,361,069)	24,453,279

The credit loss allowance for trade receivables is determined according to provision matrix presented in the table below for the year ended 31 December 2021.

<i>In % of gross value (in Azerbaijani Manats)</i>	31 December 2021			Net carrying value
	Loss Rate	Gross carrying amount	Lifetime ECL	
Trade receivables				
- current	1%	32,595,173	(483,494)	32,111,679
- less than 30 days overdue	7%	4,010,510	(292,830)	3,717,680
- 30 to 60 days overdue	8%	2,880,822	(227,049)	2,653,773
- 61 to 90 days overdue	8%	2,758,485	(218,670)	2,539,815
- 91 to 180 days overdue	8%	7,754,638	(590,040)	7,164,598
- 181 to 360 days overdue	6%	14,118,363	(821,528)	13,296,835
- over 360 days overdue	4%	2,943,447	(109,371)	2,834,076
Total	-	67,061,438	(2,742,982)	64,318,456

12 Trade and Other Receivables (Continued)

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

<i>In Azerbaijani Manats</i>	2022	2021
Allowance for credit losses on trade receivables at 1 January	2,742,982	2,589,015
Derecognised/New originated during the period	(381,913)	153,967
Total credit loss allowance charge in profit or loss for the period	(381,913)	153,967
Allowance for credit losses on trade receivables at 31 December	2,361,069	2,742,982

13 Prepayments

<i>In Azerbaijani Manats</i>	Advances to suppliers	Other prepayments	Total
Carrying value at 1 January 2021	1,472,521	141,926	1,614,447
Additions	12,067,011	169,010	12,236,021
Prepayments derecognised on receipt of related goods or services	(11,497,622)	(171,614)	(11,669,236)
Translation to presentation currency	89	-	89
Total prepayments at 31 December 2021	2,041,999	139,322	2,181,321
Additions	19,770,444	256,220	20,026,664
Prepayments derecognised on receipt of related goods or services	(15,400,507)	(135,339)	(15,535,846)
Translation to presentation currency	227,214	-	227,214
Total prepayments at 31 December 2022	6,639,150	260,203	6,899,353

14 Cash and Cash Equivalents

<i>In Azerbaijani Manats</i>	2022	2021
Bank balances payable on demand	5,676,733	3,480,806
Total cash and cash equivalents at 31 December	5,676,733	3,480,806

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2022. Refer to Note 31 for the description of the Group's credit risk grading system.

<i>In Azerbaijani Manats</i>	Bank balances payable on demand
- Good	5,676,733
Total cash and cash equivalents	5,676,733

14 Cash and Cash Equivalents (Continued)

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2021. Refer to Note 31 for the description of the Group’s credit risk grading system.

<i>In Azerbaijani Manats</i>	Bank balances payable on demand
- Excellent	10,319
- Good	3,470,487
Total cash and cash equivalents	3,480,806

15 Term Deposits

<i>In Azerbaijani Manats</i>	2022	2021
Term deposits	48,620,000	-
Less credit loss allowance	(523,925)	-
Total cash and cash equivalents at 31 December	48,096,075	-

Total amount of Term Deposits balance was restricted by Pasha Bank OJSC in 2022.

16 Assets and Liabilities arising from Contracts with Customers

The Group has recognised the following assets and liabilities arising from contracts with customers:

<i>In Azerbaijani Manats</i>	31 December 2022	31 December 2021
Current contract assets from contracts with customers	4,158,933	-
Total current contract assets	4,158,933	-
Non-current assets recognised for costs incurred to obtain or fulfil a contract		
Contract liabilities – advances from customers	(353,027)	-
Total current contract liabilities	(353,027)	-

17 Loans Issued

<i>In Azerbaijani Manats</i>	2022	2021
Corporate loans	9,758,841	-
Less: Credit loss allowance charge in profit or loss	(73,728)	-
Total carrying amount of loans at AC	9,685,113	-
Total loans issued at 31 December	9,685,113	-

17 Loans Issued (Continued)

During 2022, a loss on initial recognition of loans at rates below market in the amount of AZN 153,819 (2021: nil) was recognized in profit or loss for the year.

During 2022, GLENSOL LLC provided interest-free loans Branch Office of "Nobel Oil Ltd." in Azerbaijan Republic, SOCAR-AQS LLC, Nobel Energy Management LLC, and Ravy Property LLC in the amount of AZN 10,750,100, AZN 2,500,000, AZN 1,246,383, AZN 2,274,000, respectively. All borrowings should be paid within 1 year and have flexible maturity dates subject to termination by either party. In 2022, the total principal amount of AZN 7,606,483 was repaid to GLENSOL LLC (By Branch Office of "Nobel Oil Ltd." in Azerbaijan Republic in the amount of AZN 4,595,100, SOCAR AQS LLC in the amount of AZN 850,000, Nobel Energy Management in the amount of AZN 986,383, and Ravy Property LLC in the amount of AZN 1,175,000.)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans carried at amortised cost between the beginning and the end of the reporting period:

<i>In Azerbaijani Manats</i>	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
	(12-months ECL)		(12-months ECL)	
Corporate loans	-	-	-	-
At 31 December 2021				
<i>Movements with impact on credit loss allowance charge for the period:</i>				
Transfers:				
New originated or purchased	(73,728)	(73,728)	17,514,645	17,514,645
Derecognised during the period	-	-	(7,606,482)	(7,606,482)
Changes in accrued interest	-	-	4,511	4,511
Other movements	-	-	(153,819)	(153,819)
Total movements with impact on credit loss allowance charge for the period	(73,728)	(73,728)	9,758,855	9,758,855
At 31 December 2022	(73,728)	-	(73,728)	9,758,855

18 Share Capital

The total authorised number of ordinary shares is 10 shares with a par value of AZN 759,550.45 per share (2021: 10 shares with a par value of AZN 759,550.45 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

The structure of the share capital is presented in Note 1.

19 Borrowings

<i>In Azerbaijani Manats</i>	2022	2021
Long term borrowings	622,929	6,566,328
Short term borrowings	7,811,295	2,569,965
Total borrowings	8,434,224	9,136,293

The Group's borrowings are denominated in AZN.

The above balances include principal amounts and accrued interest payables from International Bank of Azerbaijan Republic as at 31 December 2022 and 2021. Accrued interest payable as at 31 December 2022 was AZN 10,434 (2021: AZN 13,618). Interest rate for the loans is 12%.

In 2022, International Bank of Azerbaijan Republic provided loan in the amount of AZN 9,378,974.

Long term borrowings will mature in 11 August, 2024.

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures. Interest rates for the borrowings represent market rates for the years ended 31 December 2022 and 2021. The carrying value of the term borrowings approximates fair value at 31 December 2022 and 31 December 2021. No financial and non-financial loan covenants have been stipulated by the loan agreements.

20 The Loans from shareholders

<i>In Azerbaijani Manats</i>	2022	2021
Shareholder related loans	34,421,833	11,000
Total Loans from shareholders	34,421,833	11,000

The loans from shareholders were received in September 2022 in the amount of USD 20,000,000 with the maturity date of 5 years.

The above balances include principal amounts and accrued interest payables as at 31 December 2022 and 2021. Accrued interest payable as at 31 December 2022 was in AZN 410,833 (2021: nil). Interest rate for the loans is 5%.

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21 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out an analysis of liabilities from financing activities and the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

<i>In Azerbaijani Manats</i>	Liabilities from financing activities			Total
	Borrowings	Lease liabilities	Shareholder related loans	
Liabilities from financing activities at 1 January 2021	6,541,029	2,644,484	11,000	9,196,513
Borrowings acquired	15,368,861	-	-	15,368,861
Borrowing payments	(12,804,073)	-	-	(12,804,073)
Interest accrual	983,664	463,027	-	1,446,691
Interest payments	(953,188)	(164,806)	-	(1,117,994)
Lease additions	-	109,287	-	109,287
Repayment of lease liabilities – principal	-	(605,811)	-	(605,811)
(Gain)/loss on lease modification	-	737,464	-	737,464
(Gain)/loss on lease termination	-	(8,910)	-	(8,910)
Liabilities from financing activities at 1 January 2022	9,136,293	3,174,735	11,000	12,322,028
Borrowings acquired	9,378,974	-	34,000,000	43,378,974
Borrowing payments	(10,110,413)	-	-	(10,110,413)
Interest accrual	1,007,971	272,608	410,833	1,691,412
Interest payments	(978,600)	-	-	(989,600)
Lease additions	-	200,399	-	200,399
Repayment of lease liabilities – principal	-	(626,408)	-	(626,408)
(Gain)/loss on lease modification	-	29,163	-	29,163
(Gain)/loss on lease termination	-	-	-	-
Liabilities from financing activities at 31 December 2022	8,434,225	3,050,497	34,421,833	45,895,555

22 Trade and Other Payables

<i>In Azerbaijani Manats</i>	2022	2021
Trade payables	7,340,478	8,468,895
Total financial payables within trade and other payables at AC	7,340,478	8,468,895
Accrued employee benefit costs	1,191,658	601,927
VAT payable	3,240,159	5,661,444
Other payables	1,365,346	3,956,047
Total other payables	5,797,163	10,219,418
Trade and other payables at 31 December	13,137,640	18,688,313

Refer to Note 33 for disclosure of the fair value of each class of other financial liabilities.

23 Tax Provision

Management has assessed, based on its interpretation of the relevant tax legislation which is enacted or substantively enacted by the end of the reporting period, that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, the Group has estimated and provided relevant tax provisions and the related penalties. The balance at 31 December 2022 is expected to be either fully utilised or released when the inspection rights of the tax authorities with respect to the relevant tax returns expire.

<i>In Azerbaijani Manats</i>	2022	2021
Tax provision	19,651,325	11,127,965
Total tax provision	19,651,325	11,127,965

24 Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

<i>In Azerbaijani Manats</i>	2022	2021
Technical support services	44,054,174	39,306,081
Sale of goods (oilfield equipment and inventory)	19,130,051	10,939,312
Total revenue from contracts with customers	63,184,225	50,245,393

Timing of revenue recognition (for each revenue stream) is as follows:

<i>In Azerbaijani Manats</i>	2022	2021
At a point in time	19,130,050	10,939,312
Over time	44,054,175	39,306,081
Total revenue from contracts with customers	63,184,225	50,245,393

25 Cost of Sales

<i>In Azerbaijani Manats</i>	2022	2021
Labour cost	9,572,283	6,594,053
Subcontracting costs	10,464,774	10,652,134
Materials and components used	80,963	284,427
Technical consulting	49,994	16,689
Depreciation	464,884	471,433
Other	278,991	362,711
Total cost of services	20,911,889	18,381,447
Cost of goods for resale	16,678,567	9,855,551
Total cost of sales and services	37,590,456	28,236,998

Included in labour costs are statutory pension contributions of AZN 1,513,680 (2021: AZN 1,049,940).

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26 Administrative and other Operating Expenses

<i>In Azerbaijani Manats</i>	2022	2021
Professional services fees	2,272,199	1,832,059
Staff Cost	2,826,224	1,994,582
Business trip expenses	460,884	138,707
Net impairment losses on financial assets	215,739	153,966
Training costs	66,214	46,687
Bank charges	427,820	245,452
Insurance	88,506	63,442
Depreciation and amortization	1,296,481	1,006,507
Provision for uncertain income taxes	8,523,360	11,127,965
Taxes other than on income	3,758	1,144
Communication expense	118,470	102,934
Repairs and maintenance	37,111	30,217
Office supplies	500,245	43,817
Other expenses	193,774	342,280
Total general and administrative expenses	17,030,785	17,129,759

Included in staff costs are statutory pension contributions of AZN 466,365 (2021: AZN 309,033).

27 Finance Costs

<i>In Azerbaijani Manats</i>	2022	2021
Interest expense on borrowings	1,007,970	983,665
Interest expense on loans from shareholders	410,833	-
Interest expense on lease liabilities	272,608	463,025
Total finance costs	1,691,411	1,446,690

28 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss comprises the following:

<i>In Azerbaijani Manats</i>	2022	2021
Current income tax	7,822,720	
Deferred tax	(9,919,351)	4,802,590
Income tax (benefit)/expense for the year	(2,096,631)	4,802,590

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2022 and 2021 income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

<i>In Azerbaijani Manats</i>	2022	2021
Profit before tax	6,734,256	27,018,622
Theoretical tax charge at statutory rate of 20%:	1,346,851	5,403,724
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	83,421	50,605
Unrecognised tax loss carry-forwards for the year	-	355,245
Utilisation of previously unrecognised deferred tax assets	(2,257,632)	-
Effects of different tax rates in other countries	(792,725)	(381,653)
Effects of intra-group eliminations	102,000	-
Adjustment to deferred tax balance	(578,546)	(625,331)
Income tax expense for the year	(2,096,631)	4,802,590

28 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

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

<i>In Azerbaijani Manats</i>	31 December 2021	Charged/ (credited) to profit or loss	31 December 2022
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Property and equipment	(129,231)	12,569	(116,662)
Trade and other receivables	(11,935,202)	15,086,113	3,150,911
Trade and other payables	1,310,242	(1,533,292)	(223,050)
Lease liabilities	634,947	(79,369)	555,578
Right-of-use assets	(768,198)	269,603	(498,595)
Contract assets	-	(831,787)	(831,787)
Loans issued	-	(1,931,299)	(1,931,299)
Loans and borrowings	-	(1,489,625)	(1,489,625)
Cash and cash equivalents	-	416,440	416,440
Net deferred tax liability	(10,887,442)	9,919,353	(968,089)
Recognised deferred tax asset	1,945,189	15,784,725	4,122,929
Recognised deferred tax liability	(12,832,631)	(5,865,372)	(5,091,018)
Net deferred tax liability	(10,887,442)	9,919,353	(968,089)

The tax effect of the movements in the temporary differences for the year ended 31 December 2021 are:

<i>In Azerbaijani Manats</i>	31 December 2020	Charged/ (credited) to profit or loss	31 December 2021
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Property and equipment	(89,219)	(40,012)	(129,231)
Trade and other receivables	(3,478,935)	(8,456,266)	(11,935,201)
Trade and other payables	(2,544,392)	3,854,634	1,310,242
Lease liabilities	(126,425)	761,372	634,947
Right-of-use assets	154,120	(922,318)	(768,198)
Net deferred tax liability	(6,084,851)	(4,802,590)	(10,887,441)
Recognised deferred tax asset	154,120	4,616,006	4,770,125
Recognised deferred tax liability	(6,238,971)	(9,418,596)	(15,657,567)
Net deferred tax liability	(6,084,851)	(4,802,590)	(10,887,442)

29 Contingencies and Commitments

Legal proceedings. During the period ended 31 December 2022 and 2021, the Group was not involved in any legal proceedings and no legal claims were brought against the Group.

Tax contingencies. The taxation system in Azerbaijan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decision, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various level of authorities, which have authority to impose severe fines and penalty interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Azerbaijan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30 Principal Subsidiaries, Associate

Name	Nature of business	Percentage of ownership	Country of registration
Subsidiaries:			
Glensol Kazakhstan LLC	Provision of repair and maintenance services to all types of mechanical equipment in the oil and gas industry	100%	Kazakhstan
Glensol Georgia LLC	Provision of repair and maintenance services to all types of mechanical equipment in the oil and gas industry	100%	Georgia
Associate:			
GVL LLC	Provision of technical support services relating to valves repair, maintenance and stock management in the oil and gas industry	51%	Azerbaijan

31 Financial Risk Management

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

31 Financial Risk Management (Continued)

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies an approach based on risk grades estimated by external international rating agencies (Standard & Poor's – “S&P”, Fitch, Moody's). External credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

<i>Master scale credit risk grade</i>	<i>Corresponding ratings of external international rating agencies (S&P)</i>	<i>Corresponding PD interval</i>
Excellent	AAA to BB+	0,01% – 0,5%
Good	BB to B+	0,51% – 3%
Satisfactory	B, B-	3% – 10%
Special monitoring	CCC+ to CC-	10% – 99,9%
Default	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

The rating models are regularly reviewed by management, backtested on actual default data and updated, if necessary. Despite the method used, the Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available.

Expected credit loss (ECL) measurement. The Group's trade receivables primarily consist of: a) receivables from sale of goods; and b) receivables from rendering of services.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2021 or 31 December 2020 respectively. On that basis, the loss allowance as at 31 December 2021 and 31 December 2020 was determined as follows for trade receivables from customers. The expected credit losses are calculated as the difference between the expected future cash flows and the present value of expected cash flows discounted by the asset's refinancing rate.

31 Financial Risk Management (Continued)

Staging

For account receivable portfolio, IFRS 9 allows to use practical expedient by classifying such non-defaulted assets to stage 2 and not to perform staging process. Therefore, receivables are classified to either Stage 3 (when the conditions of default are met) or Stage 2 (when a given asset may be treated as non-defaulted) and thus always provisioned in lifetime perspective.

Impairment losses on trade receivables is presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Forward-looking approach for simplified approach for trade receivables. Due dates for trade receivables of the Group are short-term. The long-term macroeconomic development does not play significant role in shaping risk profile in the segments. Therefore, no forward-looking adjustment is implemented for accounts receivables.

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

The results of back testing the ECL measurement methodology are communicated to management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In Azerbaijani Manats</i>	At 31 December 2022			At 31 December 2021		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Azerbaijani Manats	22,646,836	(12,075,640)	10,571,196	13,442,535	(7,663,807)	5,778,728
US Dollars	63,655,200	(38,251,918)	25,403,282	51,535,144	(7,942,813)	43,592,331
Euros	1,947,748	(1,867,883)	79,865	1,921,956	(1,946,461)	(24,505)
Kazakhstani tenge	81,594	-	81,594	105,019	(81,846)	23,173
Pound Sterling	1,401,876	(815,623)	586,253	794,597	-	794,597
Russian Rubles	-	-	-	11	-	11
Georgian Lari	3,123,729	-	3,123,729	-	18,739	18,739
Total	92,856,983	(53,011,064)	39,845,919	67,799,262	(17,616,188)	50,183,074

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

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31 Financial Risk Management (Continued)

<i>In Azerbaijani Manats</i>	At 31 December 2022	At 31 December 2021
	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20% (2020: strengthening by 20%)	5,080,656	8,718,466
US Dollar weakening by 20% (2020: weakening by 20%)	(5,080,656)	(8,718,466)
Euro strengthening by 20% (2020: strengthening by 20%)	15,973	(4,901)
Euro weakening by 20% (2020: weakening by 20%)	(15,973)	4,901
Other strengthening by 20% (2020: strengthening by 20%)	758,315	167,304
Other weakening by 20% (2020: weakening by 20%)	(758,315)	(167,304)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group does not have floating interest rate financial instruments. Therefore, the risk exposure to the effects of fluctuations in the prevailing levels of market interest rates on the Group's financial position and cash flows is minimized by having fixed rates negotiated on bank loans. However, interest margins may increase once loans mature and there is a need to negotiate a new credit facility.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by the management of the Group. Management monitors monthly rolling forecasts of the Group's cash flows.

The Group seeks to maintain a stable funding base primarily consisting of borrowings, trade and other payables. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 14).

The table below shows liabilities at 31 December 2021 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2022 is as follows:

<i>In Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
Liabilities					
Borrowings (Note 19)	(1,292,753)	(1,632,386)	(4,576,547)	(1,421,526)	(8,923,212)
Lease liabilities (Note 9)	(78,188)	(156,376)	(703,692)	(2,338,692)	(3,276,948)
Trade payables (Note 22)	(13,137,640)	-	-	-	(13,137,640)
The Loans from Shareholders (Note 20)	-	-	-	(34,421,833)	(34,421,833)
Total future payments, including future principal and interest payments	(14,508,581)	(1,788,762)	(5,280,239)	(38,182,051)	(59,759,633)

31 Financial Risk Management (Continued)

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

<i>In Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
Liabilities					
Borrowings (Note 17)	(1,693,272)	(573,423)	(4,703,853)	(3,092,643)	(10,063,191)
Lease liabilities (Note 8)	(68,838)	(137,676)	(619,543)	(2,543,542)	(3,369,599)
Trade payables (Note 20)	(8,468,895)	-	-	-	(8,468,895)
Total future payments, including future principal and interest payments	(10,231,005)	(711,099)	(5,323,396)	(5,636,185)	(21,901,685)

32 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as of 31 December 2022 was AZN 23,073 thousand (2021: AZN 31,583 thousand).

33 Fair Value Disclosures

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 observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Assets and liabilities not measured at fair value but for which fair value is disclosed. Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

<i>In Azerbaijani Manats</i>	31 December 2022			31 December 2021		
	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
Assets						
Financial assets at AC						
- Cash and cash equivalents	5,676,733	-	5,676,733	3,480,806	-	3,480,806
- Trade receivables	-	24,453,279	24,453,279	-	64,318,456	64,318,456
- Notes receivables	-	9,685,127	9,685,127	-	-	-
- Term deposits	-	48,096,075	48,096,075	-	-	-
- Contract assets	-	4,158,933	4,158,933	-	-	-
- Other assets	-	814,475	814,475	-	-	-
Total Assets	5,676,733	87,207,889	92,884,622	3,480,806	64,318,456	253,568,506

33 Fair Value disclosures (Continued)

<i>In Azerbaijani Manats</i>	31 December 2022		31 December 2021	
	Level 2 fair value	Carrying value	Level 2 fair value	Carrying value
LIABILITIES				
Borrowings				
- Bank loan	8,434,221	8,434,221	9,136,293	9,136,293
- Shareholder related loans	34,421,833	34,421,833	11,000	11,000
Other financial liabilities				
- Trade payables	7,340,478	7,340,478	8,468,895	8,468,895
- Lease liabilities	2,777,889	2,777,889	3,174,734	3,174,734
Total LIABILITIES	52,974,421	52,974,421	20,790,922	20,790,922

The fair values in level 2 of the fair value hierarchy were estimated using the discounted cash flows valuation technique.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition.

As of 31 December 2022, and 31 December 2021, all of the Group's financial assets and liabilities were carried at AC.

35 Events after the Reporting Period

Business combinations. In March 2023, the Group together with Alash Industrial Maintenance Services, established a new joint venture in Kazakhstan, Alash Energy Solutions LLC. The Group invested in 50% of the share capital of Alash Energy Solutions LLC which amounted to KZT 50,000 or AZN 185. The principal activities of the new joint venture will involve provision of repair and maintenance services to all types of mechanical equipment, construction and project management services.