



STATE OIL FUND OF THE
REPUBLIC OF AZERBAIJAN



AZƏRBAYCAN RESPUBLİKASI PREZİDENTİNİN FƏRMANI

Azərbaycan Respublikasının Dövlət Neft
Fondunun yaradılması haqqında

2019
2018
2017

2016

2015

2014

2013

2012

2011

2010

2009

2008

2007

2006

2005

2004

2003

2002

2001

2000

1999

20 years

- Azərbaycan Respublikasının Dövlət Neft Şirkəti ilə dünyanın tanınmış neft şirkətləri arasında 1994-cü ildə "Əsrin müqaviləsi" ilə təməli qoyulmuş işgüzar əməkdaşlığın real nəticələrini vermək ərəfəsindədir. Bu sahədə gözənilən gəlirlərin Azərbaycan Respublikasının sosial-iqtisadi tərəqqisinə istiqamətləndirilməsi dövlət siyasətinin başlıca məqsədidir.
- Bunu nəzərə alaraq, ölkənin neft yataqlarının xarici şirkətlər ilə birgə işlənməsindən əldə edilən mənfəət neftinin satışından daxil olan valyuta vəsaitlərinin gələcəkdə ölkənin iqtisadi baxımdan mühüm əhəmiyyət kəsb edən layihələrin icrasına və sosial-iqtisadi inkişafına yönəldilməsini təmin etmək məqsədi ilə qərara alıram:
1. Azərbaycan Respublikasının Dövlət Neft Fondu yaradılsın.
 2. Azərbaycan Respublikasının Dövlət Neft Fondunun aşağıdakı məqsədlər üçün formalaşdırılması müəyyən edilsin:
 - Azərbaycan Respublikasının payına düşən xam neftin və qazının satışından əldə edilən gəlirlər (qanunvericiliklə nəzərdə tutulmuş ödənişlər çıxılmaq şərti ilə);
 - bonus ödənişləri;
 - akrhesabı ödənişlər (2001-ci ildən başlayaraq);
 - xarici şirkətlərlə bağlanmış müqavilələr çərçivəsində dövlətə ödənilən kompensasiyalar;
 3. Azərbaycan Respublikasının payına düşən xam neftin və qazının satışından əldə edilən gəlirlər, aktivlərin satışından və digər daxilolmalardan əldə edilən gəlirlər Azərbaycan Respublikasının Dövlət Neft Şirkəti tərəfindən həyata keçirilsin.
 4. Azərbaycan Respublikasının Nazirlər Kabineti Azərbaycan Respublikasının Dövlət Neft Fondunun Əsasnaməsini və onun ali idarəetmə orqanının tərkibi barədə qərarı iki aylıq müddətdə hazırlayıb Azərbaycan Respublikasının Prezidentinə təqdim etsin.
 5. Azərbaycan Respublikasının Milli Bankına tapşırılsın ki, Azərbaycan Respublikasının Dövlət Neft Fondu fəaliyyətə başlayanadək onun vəsaitlərinin xüsusi hesabda toplanmasını təmin etsin.
 6. Bu Fərman imzalandığı gündən qüvvəyə miar.

Heydər Əliyev
Azərbaycan Respublikasının Prezidenti

Bakı şəhəri, "29" dekabr 1999-cu il
№ 240



20 years

State Oil Fund of the
Republic of Azerbaijan

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ABBREVIATIONS

- ACG** - Azeri-Chirag-Gunashli
- AIOC** - Azerbaijan International Operating Company
- BOE** - The Bank of England
- CBAR** - The Central Bank of the Republic of Azerbaijan
- ECB** - European Central Bank
- FED** - The Federal Reserve
- GDP** - Gross Domestic Product
- IFSWF** - The International Forum of Sovereign Wealth Funds
- IMF** - The International Monetary Fund
- OPEC** - Organization of the Petroleum Exporting Countries
- PSA** - Production Sharing Agreement
- SCCA** - State Customs Committee of the Republic of Azerbaijan
- SGC** - Southern Gas Corridor
- SOFAZ** - The State Oil Fund of the Republic of Azerbaijan
- SSC** - The State Statistical Committee of the Republic of Azerbaijan
- VAR** - Value at Risk
- WB** - The World Bank

1. ABOUT SOFAZ

September 20, 1994 marked a significant milestone in the history of modern Azerbaijan. Under the leadership of the national leader Heydar Aliyev, Azerbaijan signed a groundbreaking Production Sharing Agreement (PSA) with a consortium of 11 international oil companies from 7 nations for the exploration and exploitation of oil fields in Azerbaijan's sector of the Caspian Sea – Azeri-Chirag-Gunashli. Dubbed the “Contract of the Century”, this transformative agreement has spurred the signing of many other oil contracts in subsequent years. Owing to the successful realization of the National Oil strategy – laid out by Heydar Aliyev, Azerbaijan ensured its energy security and became a reliable country and partner in the international arena. The three pillars of the National Oil Strategy entail the attraction of foreign investments and expertise in the development of the country's oil and gas resources; establishment of multi-optional export routes; and efficient and transparent management of generated revenues. Amid rising populist views and mounting pressure from the international and national opposition forces, Ilham Aliyev, who was the vice-president of the State Oil Company of Azerbaijan Republic back then, played an increasingly prominent role in the realization of the National Oil Strategy. Ilham Aliyev's successful diplomatic mission, direct initiative, and forethoughtful proposals led to the idea of establishing the State Oil Fund of the Republic of Azerbaijan (SOFAZ), in order to enable the prudent management of oil revenues. As proposed by Ilham Aliyev, the experiences of similar sovereign wealth funds abroad were thoroughly evaluated, and consequently, SOFAZ was established in accordance with the Decree No. 240 of the national leader Heydar Aliyev on December 29, 1999. SOFAZ is a mechanism whereby energy-related earnings are accumulated and efficiently managed for future generations.

SOFAZ is structured as an extra-budgetary fund and functions as a legal entity separate from the government or central bank. Statute of SOFAZ was approved in 2000.

The cornerstone of SOFAZ's philosophy is to ensure intergenerational equality with regard to the country's oil wealth.

MISSION

SOFAZ's mission is to transform depletable hydrocarbon reserves into financial assets generating perpetual income for current and future generations.

OBJECTIVES

SOFAZ's activity is directed to the achievement of the following objectives:

1. Supporting macroeconomic stability, participating in ensuring fiscal-tax discipline and decreasing dependence on oil revenues while stimulating development of the non-oil sector;
2. Funding major national scale projects to support socio-economic progress;
3. Ensuring intergenerational equality with regard to the country's oil wealth, accumulating and preserving oil revenues for future generations.

LEGAL FRAMEWORK

SOFAZ's operations are guided by the Constitution and laws of the Republic of Azerbaijan, Presidential decrees and resolutions, SOFAZ Statute and regulations.

SOFAZ's funding and withdrawal rules are clearly defined by the “Statute of the State Oil Fund of the Republic of Azerbaijan” and the “Rules on the preparation and execution of the annual program of revenues and expenditures (budget) of the State Oil Fund of the Republic of Azerbaijan”. According to the Law “On budget system” of the Republic of Azerbaijan, all SOFAZ expenditures, except for operating expenditures, are incorporated into an annual consolidated government budget presented to the Parliament for approval. Thus, indirectly, all citizens participate in the discussions of the budget of SOFAZ. In compliance with this law, SOFAZ can only execute the expenditures envisaged by its budget.

SOFAZ's investment and risk management policies are defined by “Investment Guidelines” and “Investment Policy” approved by the President of the Republic of Azerbaijan after the review of the Supervisory Board. According to its “Investment Policy”, SOFAZ's investment decisions should aim at maximizing the risk-adjusted returns. According to the “Investment Guidelines”, SOFAZ makes investment decisions independently.

ABOUT SOFAZ

OUR VALUES

Integrity

We conduct our activity in accordance with the highest moral standards and ethical principles of society. We are honest and truthful in all our words and actions.

Respect

We thoughtfully and carefully consider individual differences and ideas of others by complying with the highest moral standards, ethical principles and professional standards of society.

Result oriented teamwork

We aim at accomplishing concrete results with productive and sincere cooperation of the team.

Responsible initiative

We boldly take responsibility and initiative in order to achieve the timely and quality execution of the tasks arising from the Fund's objectives and mission.

Transparency and accountability

We deliver full, timely, accurate and up-to-date information to all stakeholders within the framework of our activities.

20 YEAR HISTORY OF SOFAZ

1999

- The President of Azerbaijan, Heydar Aliyev signs a Decree to establish SOFAZ.

2000

- The President of Azerbaijan approves SOFAZ's Statute.

2002

- Ernst & Young conducts the first audit of SOFAZ's financial performance.
- The Supervisory Board holds its first meeting with the participation of the President of Azerbaijan.



2007

- SOFAZ receives the United Nations Public Service Award for "Improving Transparency, Accountability and Responsiveness in the Public Service".
- SOFAZ receives first profit payment from the Shah Deniz project.



2009

- "2009 EITI Award" is presented to Azerbaijan.
- SOFAZ hosts the inaugural meeting of the International Forum of Sovereign Wealth Funds in Baku.
- The ceremony of laying the foundation stone of SOFAZ's new administrative building takes place with the participation of the President of Azerbaijan Ilham Aliyev.
- SOFAZ celebrates its 10th anniversary.
- The President of the Republic of Azerbaijan Ilham Aliyev awards medals to a number of SOFAZ employees.

2011

- In accordance with the Santiago Principles, SOFAZ releases its first self-assessment report.

2016

- SOFAZ hosts the third Annual Summit of the Co-Investment Roundtable of Sovereign and Pension Funds in Baku.



2018

- SOFAZ ranks 10th amongst one hundred most impactful public investors, according to The Sovereign Wealth Fund Institute's (SWFI) ranking.

2001

- SOFAZ receives its first capital transfers in the amount of USD 270.9 mln.
- SOFAZ's first annual budget is approved.
- The President of Azerbaijan appoints SOFAZ's CEO.
- SOFAZ's Supervisory Board is set up.
- The President of Azerbaijan approves "Rules on holding, placement and management of foreign currency assets of SOFAZ".
- The President of Azerbaijan approves "Rules on preparation and execution of the annual program of revenues and expenditures (budget) of SOFAZ".

2003

- SOFAZ begins to transfer its assets to the state budget.
- The Government of Azerbaijan declares its decision to join the Extractive Industries Transparency Initiative (EITI).



2008

- SOFAZ receives first dividend from the Heydar Aliyev Baku-Tbilisi-Ceyhan Main Export Pipeline project.



2014

- The opening ceremony of SOFAZ's new administrative building takes place with the participation of the President of Azerbaijan Ilham Aliyev.

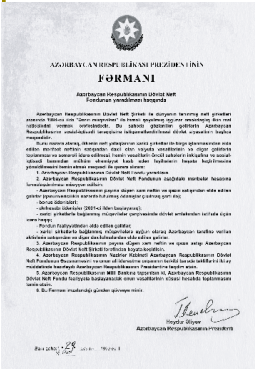


2017

- The President of Azerbaijan Ilham Aliyev signs a Decree to establish the Extractive Industries Transparency Commission.

2019

- SOFAZ hosts an international conference titled "Impact Investing: Opportunities and challenges for institutional investors".
- The President of the Republic of Azerbaijan, Ilham Aliyev, awards medals to a number of SOFAZ employees.
- SOFAZ celebrates its 20th anniversary.



2. FACTS AT A GLANCE

Chart 2.1. Growth in SOFAZ assets (USD billion)

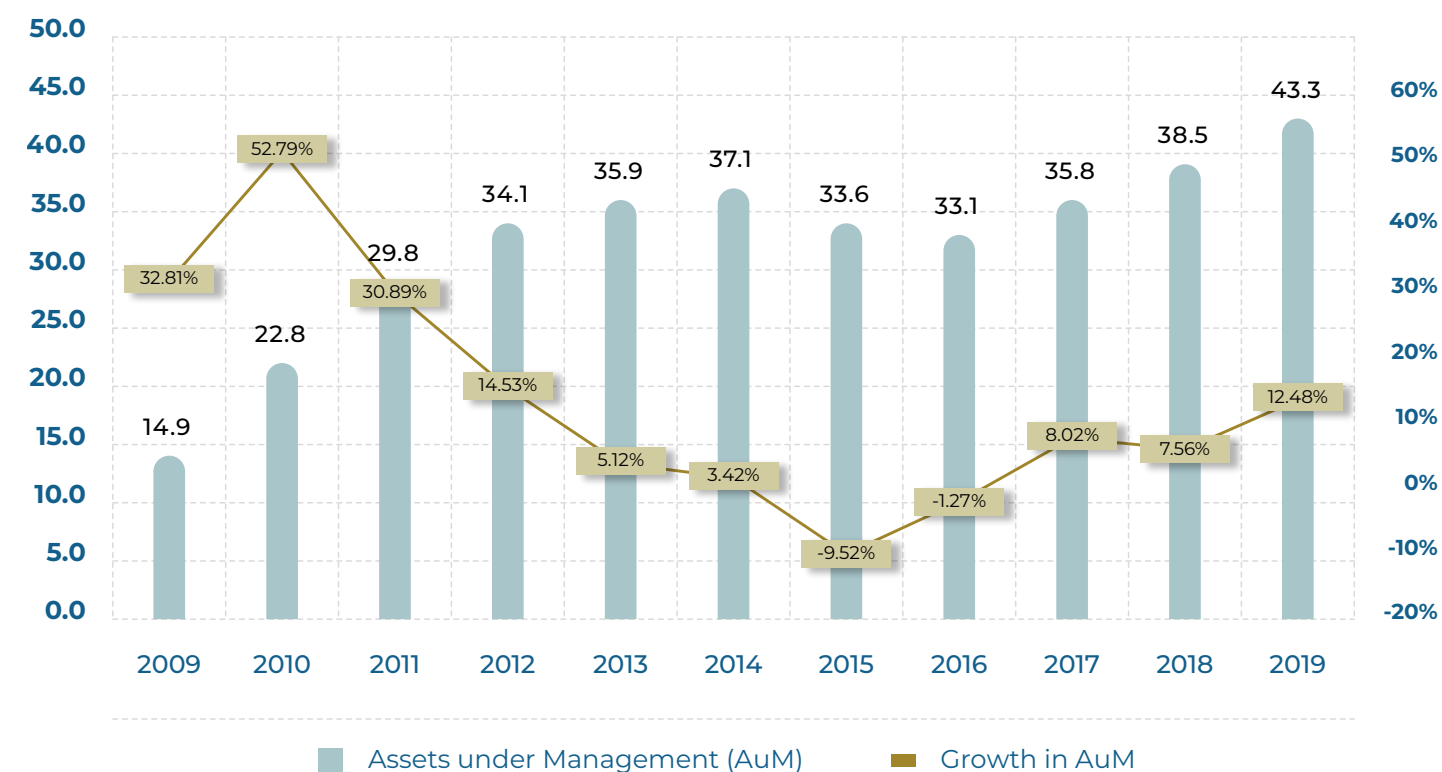


Chart 2.2. Annualised rate of return on investment portfolio

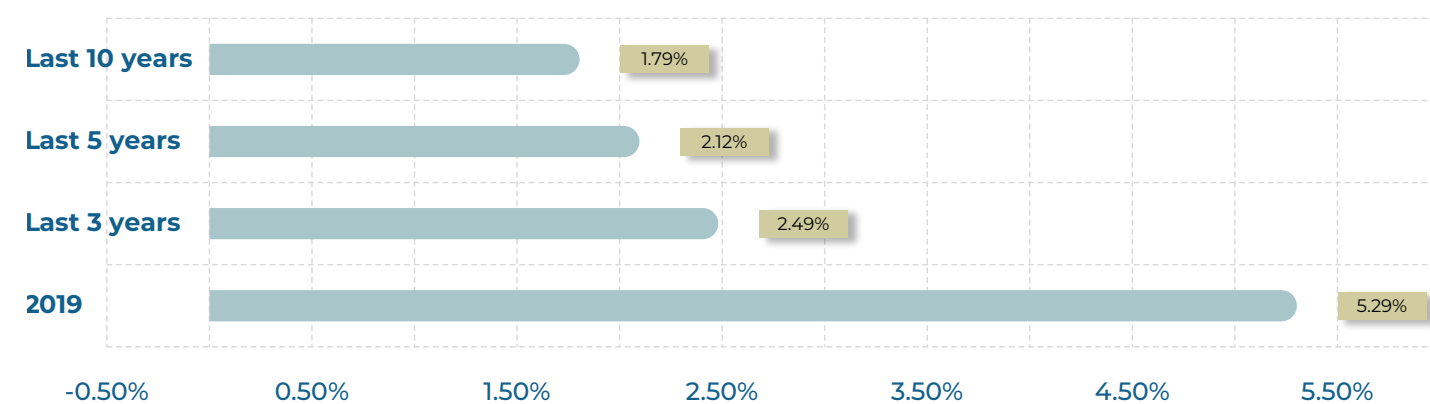


Chart 2.3. Currency composition as percentage of Investment Portfolio

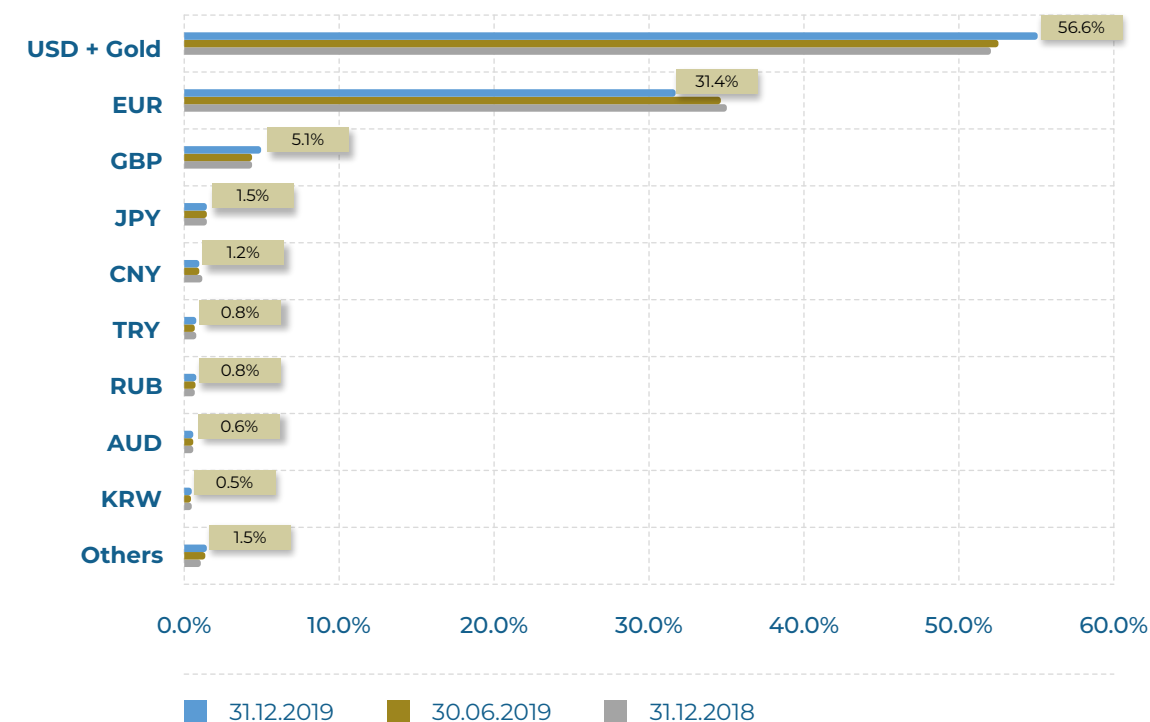
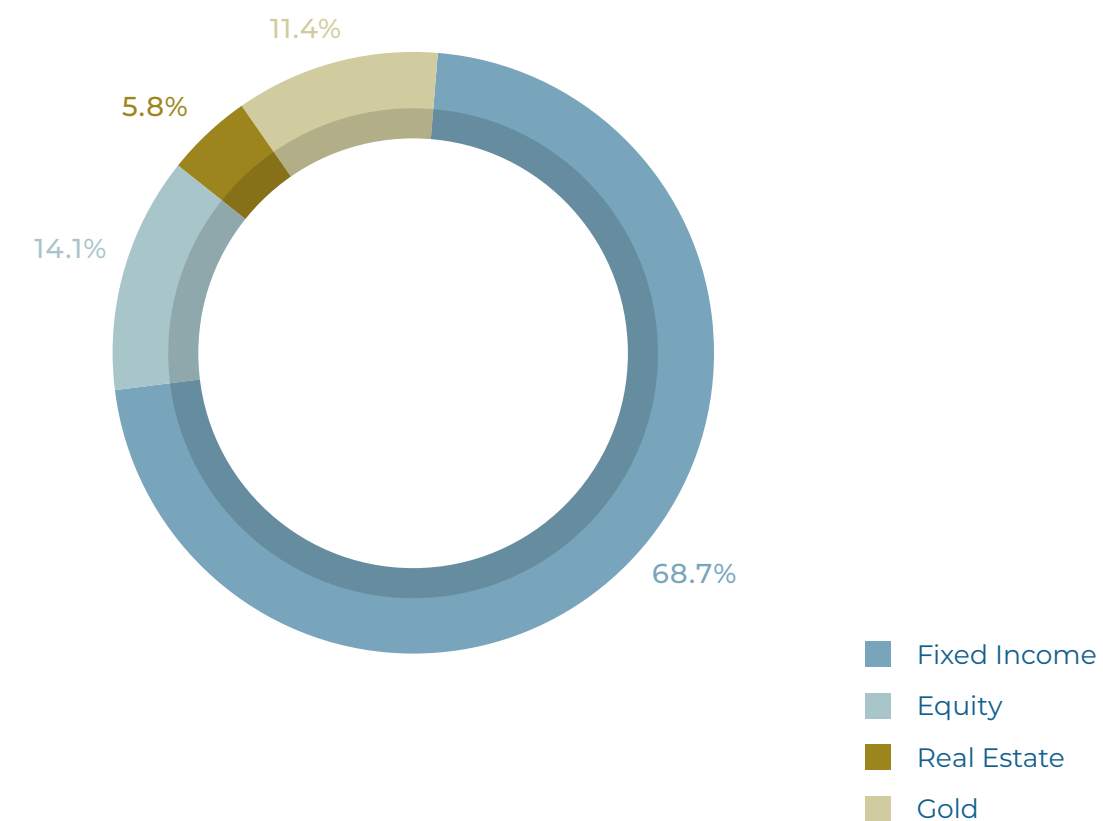


Chart 2.4. Asset allocation (as percentage of Investment portfolio, as of 31.12.2019)



3. GOVERNANCE AND TRANSPARENCY

3.1. MANAGEMENT OF SOFAZ

Supervisory Board

The Supervisory Board, consisting of representatives of the state authorities and public organisations, carries out general oversight of SOFAZ's operations. The Board reviews and evaluates SOFAZ's draft annual budget, annual report and financial statements, along with an audit report. Members of the Supervisory Board are approved by the President of the Republic of Azerbaijan. The board members act entirely on a voluntary basis.

In 2019, the Supervisory Board of SOFAZ took a number of decisions regarding the SOFAZ's activities. On July 4, 2019, the Supervisory Board of SOFAZ approved the Fund's annual report for 2018 and the independent Auditor's ("PricewaterhouseCoopers Audit Azerbaijan" LLC) Report on SOFAZ's financial activities. The Supervisory Board submitted SOFAZ's 2018 budget execution project (along with the opinion of the Chamber of Accounts) for the approval by the President of the Republic of Azerbaijan. At the same time, a decision was taken regarding the amendments to the legal acts regulating the activities of the Fund, particularly to the articles that outline the deadlines for presenting SOFAZ's financial reports. Consequently, the deadline for submitting SOFAZ's financial and budget execution reports for the approval by the President of the Republic of Azerbaijan was extended to June 30.

The next meeting of the Supervisory Board of SOFAZ was held on December 6, 2019. At the meeting, the Board, having viewed the SOFAZ's 2020 budget project as well as the data on SOFAZ's management expenditures submitted by SOFAZ's Executive Director, recommended the Fund's 2020 draft budget plan, including the major directions of the use of SOFAZ's assets and investment policy and its draft operating expenditures plan for the approval by the President of the Republic of Azerbaijan.

The new composition of the Supervisory Board – consisting of seven members – was approved by the Order of the President of the Republic of Azerbaijan Ilham Aliyev on December 9, 2019.

According to the Order, the Supervisory Board included the following members:

Ali Asadov

Prime Minister of the Republic of Azerbaijan

Valeh Alesgerov

Deputy Speaker of the Milli Majlis (Parliament) of the Republic of Azerbaijan

Natig Amirov

Assistant to the President of the Republic of Azerbaijan – Head of the Department of Economic Policy and Industrial Issues of the Presidential Administration of the Republic of Azerbaijan

Shahmar Movsumov

Assistant to the President of the Republic of Azerbaijan - Head of the Department of Economic Issues and Innovative Development Policy of the Presidential Administration of the Republic of Azerbaijan

Samir Sharifov

Minister of Finance of the Republic of Azerbaijan

Mikayil Jabbarov

Minister of Economy of the Republic of Azerbaijan

Elman Rustamov

Chairman of the Central Bank of the Republic of Azerbaijan.

As a result of the parliamentary elections held on February 9, 2020, the new composition of the Milli Majlis of the Republic of Azerbaijan was formed. Mr Adil Aliyev, the Deputy Speaker of the Parliament has been appointed to the Supervisory Board of SOFAZ, representing the Milli Majlis on the board.

Executive Director

SOFAZ's day-to-day activities are managed by the Executive Director appointed by the President of the Republic of Azerbaijan. The Executive Director represents the Fund, appoints and dismisses employees of SOFAZ in a manner determined by the legislation, carries out operational management of SOFAZ's activities, ensures the management and investment of SOFAZ's assets in accordance with the Guidelines approved by the President of the Republic of Azerbaijan.

In accordance with the Order of the President of the Republic of Azerbaijan Ilham Aliyev on November 29, 2019, Mr Shahmar Movsumov, Executive Director of SOFAZ was appointed as the Assistant to the President of the Republic of Azerbaijan – Head of the Department of Economic Issues and Innovative Development Policy of the Presidential Administration. On the same day, Mr Israfil Mammadov, the Deputy Executive Director of SOFAZ was appointed Executive Director of SOFAZ by the Presidential Order.

Deputy Executive Director

Deputy Executive Director is appointed by the President of the Republic of Azerbaijan and accomplishes tasks assigned by the Executive Director and bears personal responsibility.

Mr Israfil Mammadov, who was appointed as the Deputy Executive Director of SOFAZ by the Order No. 3014 of the President of the Republic of Azerbaijan Ilham Aliyev on July 23, 2013, was appointed Executive Director of SOFAZ by the Presidential Order dated November 29, 2019.

Mr Rovshan Javadov was appointed Deputy Executive Director of SOFAZ by the Presidential Order dated March 2, 2020.

Advisor to Executive Director

Advisor to SOFAZ's CEO is appointed by the Executive Director of SOFAZ. Mrs Nargiz Nasrullayeva-Muduroglu was appointed Advisor to SOFAZ's CEO on July 6, 2017.

SOFAZ's Organizational Structure

Investment activity at SOFAZ is conducted by Investment Department, Risk Management Department and Settlements Department.

Investment Department

The Investment Department is responsible for developing investment strategy, investing across eligible asset classes, including fixed income, money market instruments, equity, real estate and gold.

The department has three divisions:

- Fixed income and money market division;
- Equity and alternative investment division;
- Real estate division.

Risk Management Department

The Risk Management Department is responsible for conducting relevant research for defining risk limits and providing proposals related to investment policy updates and benchmark selection. In addition, the responsibilities of this department also include, but are not limited to, assessment and management of risks related to traditional and alternative asset class investments, measuring the absolute and relative performance of investment portfolio, monitoring of compliance of SOFAZ's investment activities and its external managers to relevant regulations/ mandates, and ensuring that the allocations of investment portfolio are in accordance with investment policy.

The department has two divisions:

- Quantitative solutions and performance measurement division;

- Alternative investments risk management division.

Settlements Department

Settlements department operates under the SOFAZ's Finance and Operations Administration. The Settlements department is responsible for verifying trades with counterparties, settling trades with the custodian and correspondent banks, documentation regarding account opening, reconciling cash and transactions with statements from the banks, as well as reconciling external managers' transactions and positions.

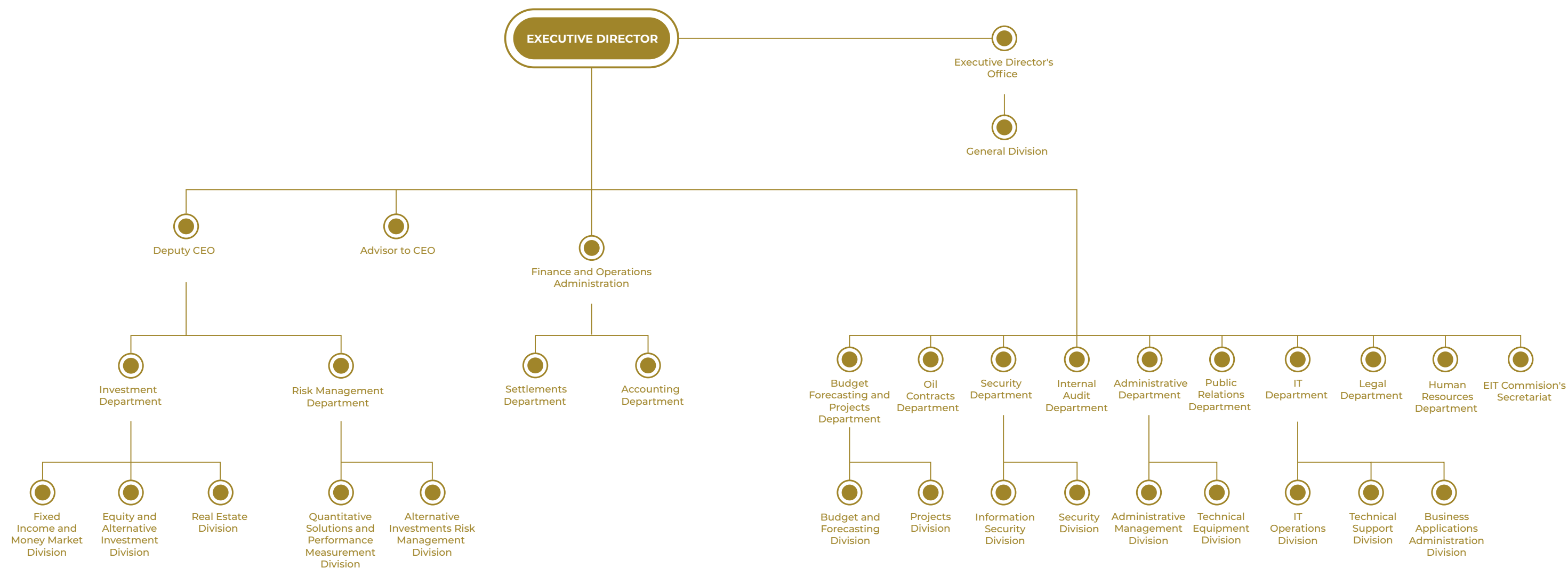
Budget Forecasting and Projects Department

The main purpose of the Department is to provide the preparation and approval of an optimal budget, meeting the macroeconomic and fiscal requirements of the country and matching with the purposes of sustainable development of the Fund and to establish an effective control and monitoring system for the projects financed from the Fund's budget.

The department has two divisions:

- Budget and forecasting division;
- Projects division.

Figure 1. SOFAZ's organizational structure



The Code of Ethical Conduct

The Code of Ethical Conduct was approved by the Order No. 17 of the Executive Director of SOFAZ dated May 13, 2019.

This document establishes the rules of ethical conduct of the employees of SOFAZ and governs matters related to compliance therewith, oversight of compliance with and liability for breaching the Code as well as defines corporate values and requirements of the Fund.

3.2. TRANSPARENCY AND ACCOUNTABILITY

Transparency and accountability have been the key principles in SOFAZ's operations since its inception. Regular auditing of SOFAZ's financial statements by a reputable international audit firm is used as the primary safeguard to ensure the transparency of SOFAZ's operations. SOFAZ's financial performance in 2019 was audited by PricewaterhouseCoopers.

SOFAZ's public relations are managed in accordance with its Information Policy. SOFAZ's Information Policy has been developed in accordance with the Law of the Republic of Azerbaijan "On Obtaining Information" with the purpose of efficient management of SOFAZ's information exchange with stakeholders and the public and to protect and develop its transparent state entity reputation. Information Policy defines the principles, purposes and objectives of the provision of information about SOFAZ's operations and activities to stakeholders and the public under the purposes and objectives of the Fund.

The Fund regularly issues press releases about its assets, investment activities, revenues and expenditures, projects, as well as events and meetings organised by SOFAZ.

To ensure the transparency of SOFAZ's activities, the Fund publishes relevant information, including quarterly revenue and expenditure statements, and annual reports on its official website (www.oilfund.az) and on its official pages in social media sites.

SOFAZ is always open to answering the questions of the public, and responds to all verbal and written Fund-related enquiries, within the timeframe prescribed by the "Law of the Republic of Azerbaijan on Right to obtain information".

SOFAZ's Executive Director is the Chair of Extractive Industries Transparency Commission (EITC). More detailed information on EITC's activity can be accessed through the following link: <http://hssk.gov.az/en>

International Forum of Sovereign Wealth Funds

The International Forum of Sovereign Wealth Funds (IFSWF or Forum) was established by the International Working Group of Sovereign Wealth Funds, at the meeting in Kuwait on April 5-6, 2009. IFSWF is a voluntary group of Sovereign Wealth Funds (SWFs), which meets, exchanges views on issues of common interest, and facilitates an understanding of the Santiago Principles and SWF activities.

SOFAZ is an active member of IFSWF and has systematically participated in its meetings. IFSWF held its first meeting in Baku organised by the government of Azerbaijan and SOFAZ on October 8-9, 2009.

IFSWF held its 11th annual meeting in Alaska's capital Juneau, hosted by the Alaska Permanent Fund Corporation (APFC) on September 10-13, 2019. The event was attended by more than 70 representatives of 32 IFSWF members, representing financial and development institutions. During the meeting, IFSWF members voted for the 13th annual meeting to be hosted by CDP Equity, in Rome, Italy. Entitled 'Global Currents: Technology. Partnerships. The Arctic.', the meeting featured panel discussions on the key issues facing the current investment landscape and international collaboration, with in-depth talks from leading international speakers.

The 12th annual meeting will be hosted by SOFAZ in Baku, Azerbaijan.

In accordance with Santiago Principle No. 24, SOFAZ published its first self-assessment report on its adherence to these Principles in May 2011. This report is reviewed on an annual basis and is presented in the Appendix.

4. NATIONAL ECONOMY AND SOFAZ

4.1. MACRO-ECONOMIC DEVELOPMENT

Oil Markets

The global oil market experienced stagnation in 2019. While the prices partly recovered after plummeting to the levels of USD 50 in late 2018, the barrel of Brent in 2019, contrary to most forecasts, fluctuated between USD 60 and 70, while its average annual value constituted USD 64. Such factors as the rising tensions between US and Iran, bombing of the largest oil production facility in Saudi Arabia, and the measures taken by OPEC+ to prevent the rise in oil extraction were not able to move prices higher. This can be explained by the dynamic growth of the US shale oil sector and the dominance of risk-averting behaviour in the global markets. Hence, economic growth in resource exporting countries,

particularly in the Middle East region, has slowed again. According to the World Bank (WB) estimations, the GDP of the resource exporters in 2019 grew by 1.9% on average.

In terms of global economy, 2019 was characterized by the receding growth which registered the lowest figures since the financial crisis of 2008-2009. The annual GDP in the last year grew by 2.4%, far less than in 2017 (3.2%) or 2018 (3.0%). To be more precise, the respective figures for the developed countries and the EMDE (emerging markets and developing economies) group constituted 1.6% and 3.5%, respectively.

OIL PRICE IN 2020

Initial expectations for the oil market in 2020 were quite optimistic. Average spot price of Brent crude constituted USD 67 per barrel in December 2019, or USD 10 per barrel higher than in December 2018. The spike in price was attributed to a range of factors that were supposed to further increase the oil prices in 2020. Among these factors were accelerated global growth expectations, potential agreement for a trade deal between the US and China, as well as the agreement reached by OPEC and partner countries to extend the production cuts policy. Moreover, growing political tensions in the Middle East in early January increased uncertainty around potential disruptions to oil production and shipping, increasing the risk premium for global oil prices.

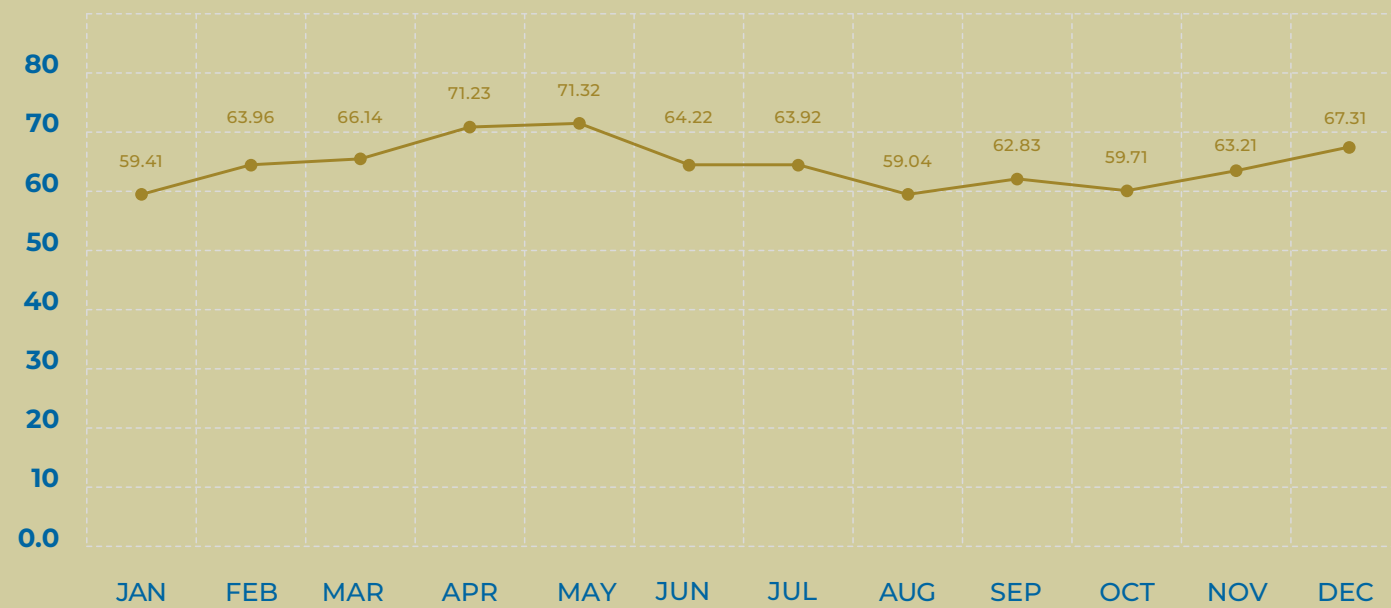
However, the outbreak of the new Coronavirus disease that started in China and then spread around the world, shattered market models and forced major energy companies to significantly amend their forecasts. As billions of people throughout the globe have got under the isolation regime, global economic activity has been falling at rates unseen since the World War II: the GDP of such countries as the USA, Italy, France is expected to plummet by about 25-30% in the second quarter of the year, while the Chinese economy's contraction for the same period is estimated to be at around 10% the least. Falling demand for oil is due to the decline of overall economic activity as well as to the sharp downfall in the international travel. Moreover, after Russia refused to make further cuts to oil production within the framework of the OPEC+ agreement in the early March, Saudi Arabia and some other countries close to it left the agreement and pledged to increase production to maximum levels. Against the backdrop of the decline of demand by about 20 million barrels per day, this has left the market with excess supply of oil, being unable to find a buyer, and exposed the market to the real risk of running out of storage space. While OPEC by the end of 2019 had forecasted oil demand to rise by 1.08 mbd for 2020, in the latest it has slashed this forecast down to 0.06 mbd, and most probably, will revise it even lower. All these events resulted in the oil prices falling to the level of USD 25-30 per barrel and made it necessary to revise the forecasts radically.

However, Russia and Saudi Arabia found a way to restore negotiations amid rising risks of oversupplied oil market. The OPEC+ group together with new participants including, for the first time in history, United States, finally concluded a new agreement on April 10. It stipulated an unprecedented production cut which would constitute 10 million barrels on a daily basis, or more than 10% of all the oil produced. Still it was not enough to offset the demand fall which is close to 20 mb/g, but at least this deal prevented the exhaustion of storage capacity and seems to have brought certain stability to the market. Hence, the US Energy Information Administration (EIA) has lately estimated the average price per barrel of the Brent oil for 2020 at USD 33.04, and at USD 29.34 for WTI. This means a 50-60% slump compared to the start-of-the-year forecasts (\$68 and 65). The Barclays and Goldman Sachs predict the Brent to cost USD 31 and USD 30, respectively.



While gas markets react to short-term shocks in a different way than oil, they also face a downward pressure on prices. Goldman Sachs has revised its forecast for the US liquefied gas in 2020 from USD 2.50/MMBtu to USD 1.60/MMBtu, while the price of gas in European and Asian markets is now estimated at USD 2.30-2.50/MMBtu. The most probable reason of U.S. gas being exposed to serious risks, is the strong dependence of this market on the steady growth of demand and elasticity of the prices. At the same time, a revival of the gas market is already predicted for 2021 which may result in 10-15% price increase. However, it must be taken into account that if the epidemiological situation does not improve by the mid-year, a sharper market contraction can yet be expected.

Price per barrel of the Brent oil in 2019 (USD)



Source: Statista.com

NATIONAL ECONOMY AND SOFAZ

In accordance with its purposes and responsibilities, in 2019 SOFAZ maintained accumulation and management of the revenues stemming from the execution of the oil and gas contracts, for future generations. Thus, against the backdrop of the oil price stability as well as the record high level of the revenues from asset management, the Fund has recorded a significant increase in its revenues.

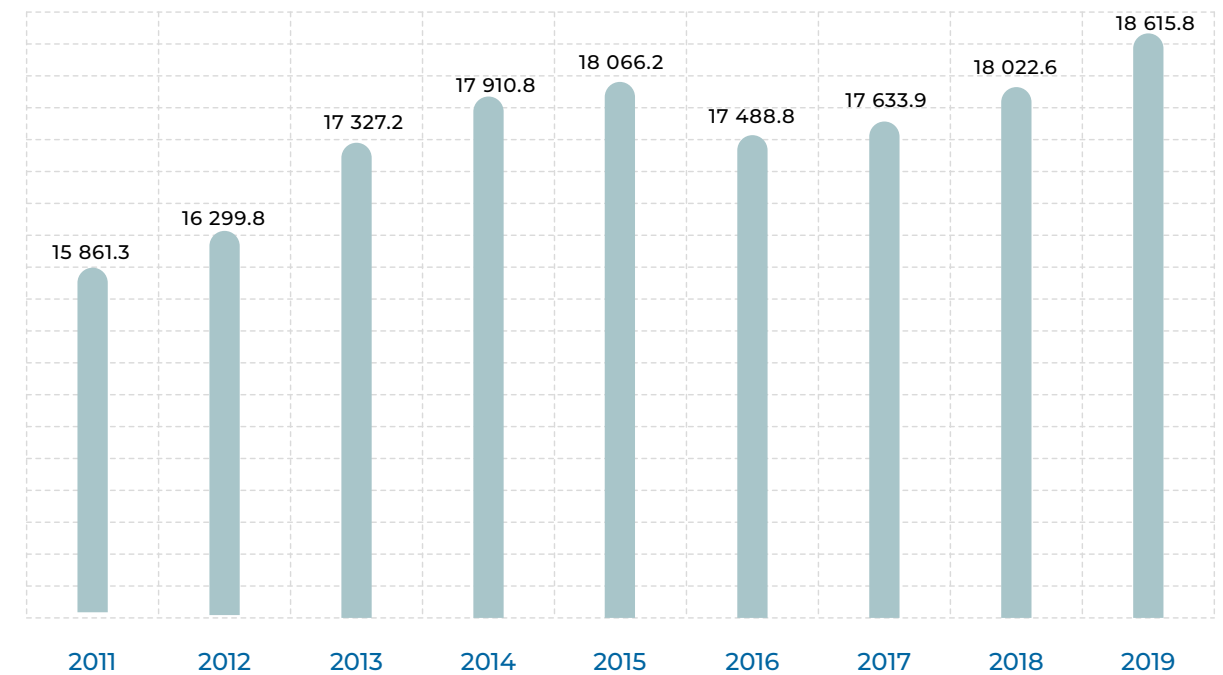
In 2019, manat exchange rate remained stable at 1.70 per US dollar. Average annual inflation rate in 2019 constituted a moderate 2.6%. The GDP of Azerbaijan rose to AZN 81 681.0 million in nominal figures, while its growth constituted 2.2% in real terms (1.4% in 2018 and 0.1% in 2017).

In 2019, the GDP per capita constituted AZN 8 247.0, having risen by 1.4% since the previous year. At the same time, the GDP per capita adjusted to purchasing power parity (PPP),

as estimated by the IMF, grew by 1.5% and amounted to USD 18 615.8¹. The nominal income of the population rose by 7.4%, compared to 2018, reaching AZN 57 035.0 million. The income per capita increased by 6.5% and equaled AZN 5 758.6, whereas the average nominal monthly salary rose by 16.6% up to AZN 634.8.

After all mandatory and voluntary disbursements, the overall disposable income of the population amounted to AZN 52 500 million, or 7.1% higher than in 2018 in nominal terms. The 61.7% of the country's GDP belongs to the non-oil sector.

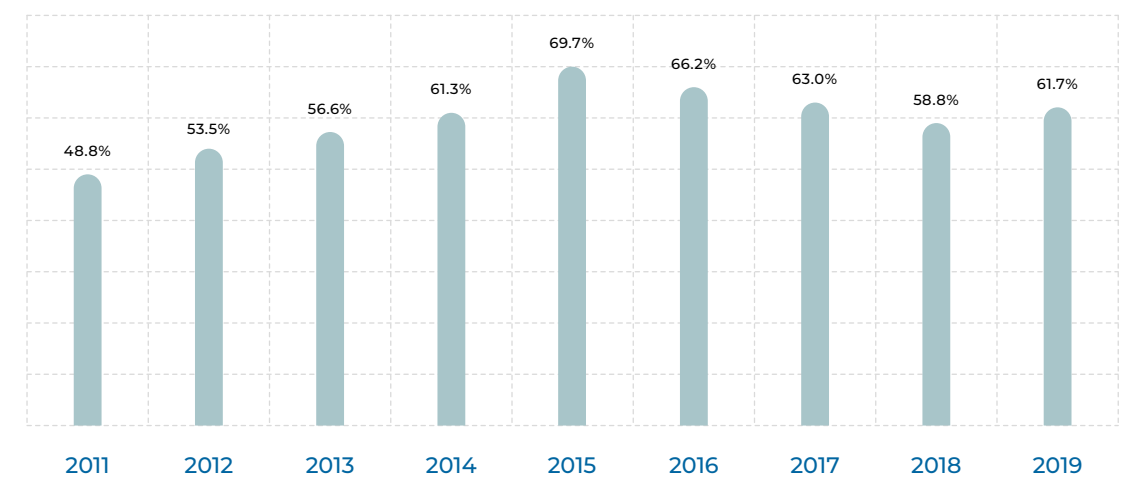
Chart 4.1.1. GDP per capita adjusted to purchasing power parity (in current international dollars)



Source: IMF

The structure of the GDP, which in 2019 totalled 81 681.0 million AZN, was as follows: 54.4% fell into the share of the production of goods, 36.9% - to services, while net taxes on goods and imports accounted for the remaining 8.7%. Compared to the previous year, the production of value-added in the non-oil sector increased by 3.5% in real terms, while the respective indicator for the oil sector equaled 0.4%.

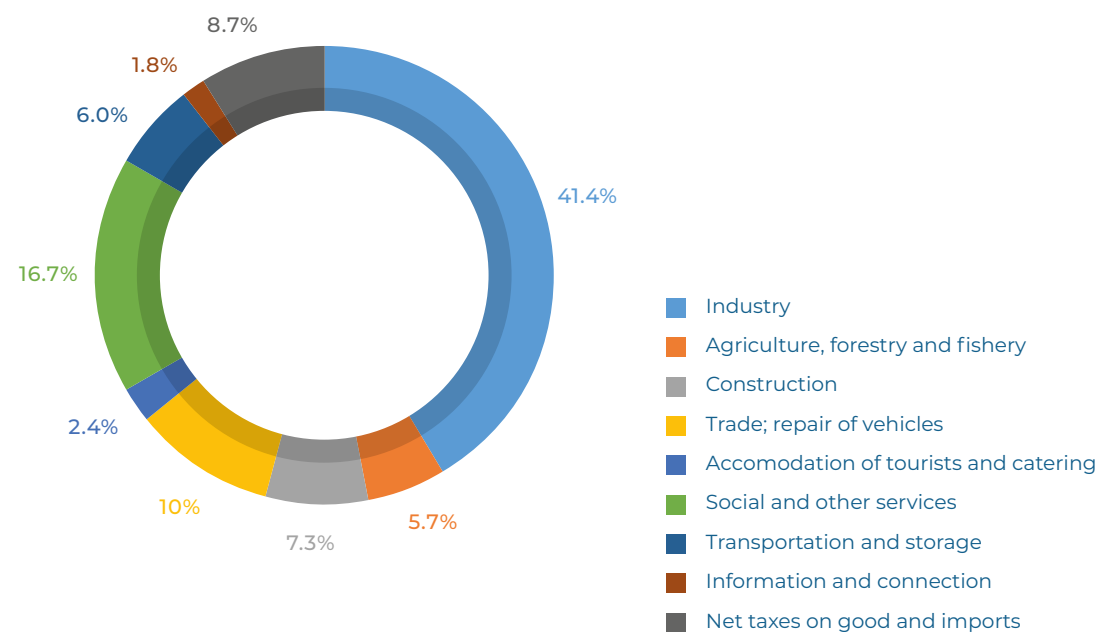
Chart 4.1.2. The share of non-oil sector in the country's GDP



Source: State Statistical Committee of the Republic of Azerbaijan (SSC)

The industrial sector continued to play a leading position in the Azerbaijani economy; its share in the GDP amounted to 41.4%. At the same time, the dynamics of the services sector remained relatively stable.

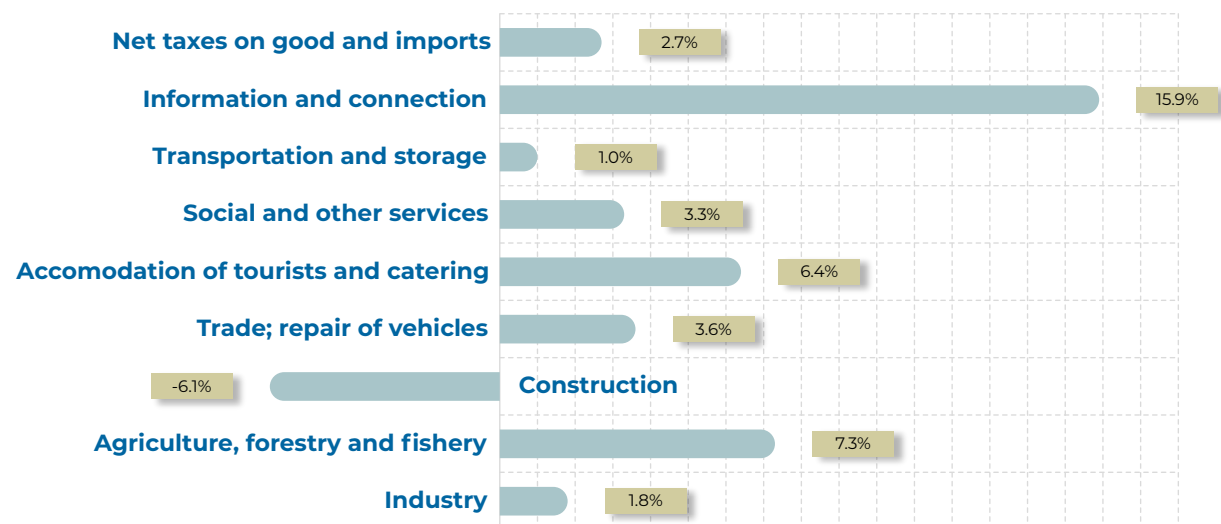
Chart 4.1.3. The GDP structure



Source: SSC

In 2019, real growth was registered in most sectors of the Azerbaijani economy. Progress in such spheres as information and communications (15.9%), tourism and catering (6.4%) and agriculture (7.3%) deserves special attention, since they have been undergoing extensive reforms. The spectacular growth of the non-oil industry (14.5%), achieved against the backdrop of the recent years' reforms, is also worth noting.

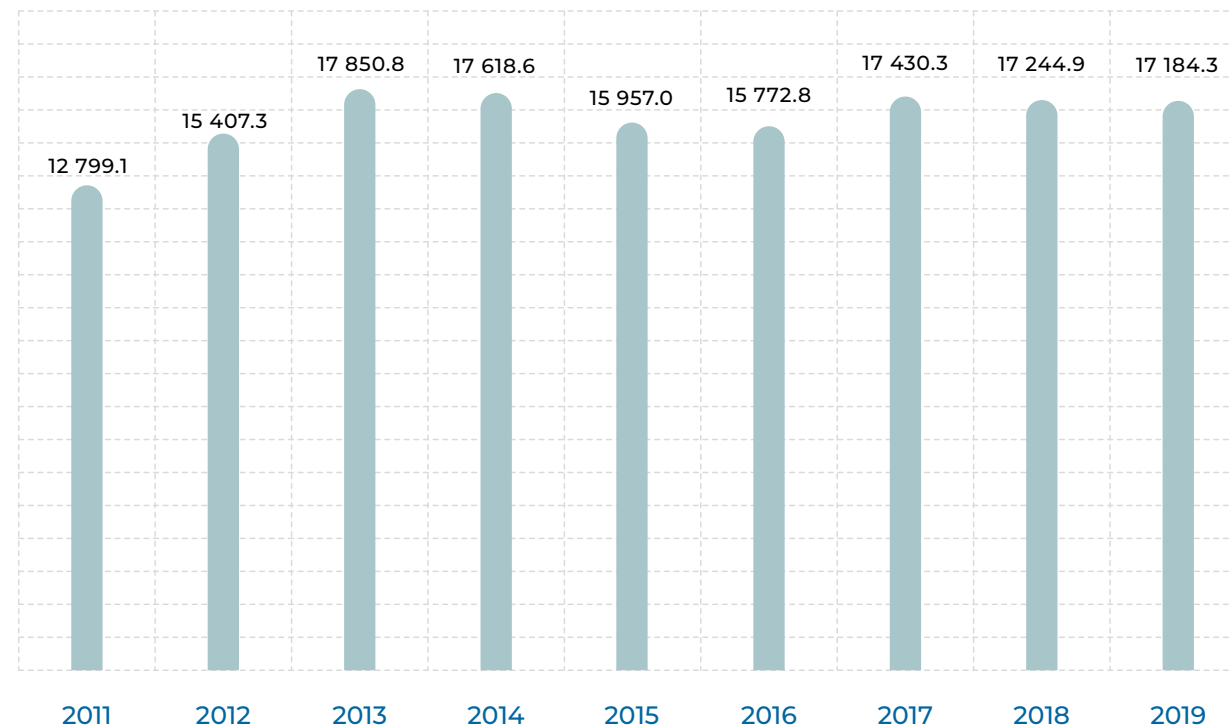
Chart 4.1.4. Sectoral growth rates



Source: SSC

In the reference year, the amount of capital investment in Azerbaijan declined by 2.3% in real terms, compared to the 2018 figures, and totalled AZN 17 184.3 million. The shares of domestic and foreign investment amounted to 69.8% and 30.2% respectively, and 65.4% of this amount was spent on the execution of construction and installation works. The decline observed in capital investment is attributable to the oil sector, while non-oil sector rose by 4.0% (nominal).

Chart 4.1.5. Dynamics of capital investment made in Azerbaijan (million AZN)



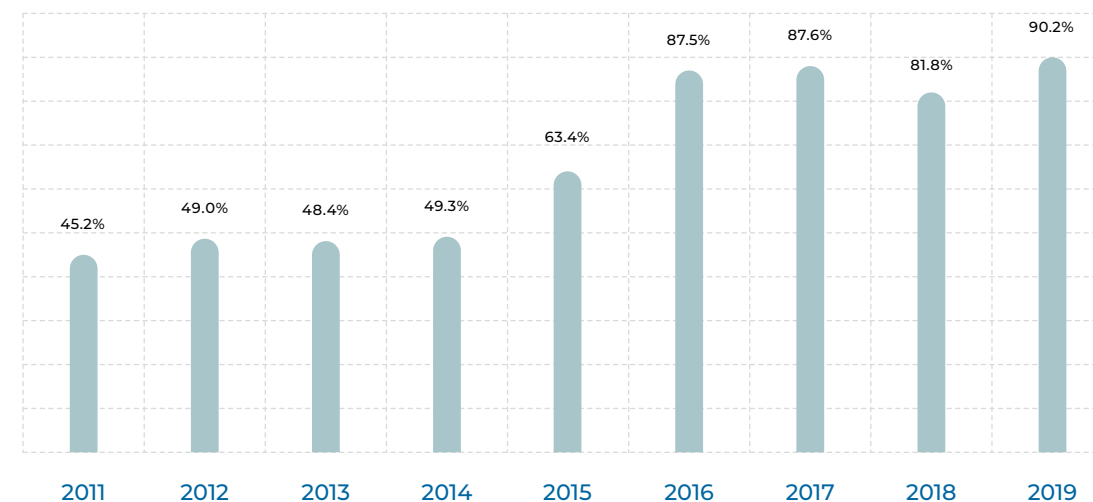
Source: The Ministry of Economy of the Republic of Azerbaijan

Strategic Currency Reserves

By December 31, 2019, the country's strategic currency reserves (SOFAZ and CBAR combined) reached USD 49 581.3 million, having risen by USD 5.4 billion or approximately 12.3%, compared to the previous year. 87.4% of these reserves fall into the share of SOFAZ's assets.

In 2019, the ratio of SOFAZ's assets to the GDP of Azerbaijan constituted 90%.

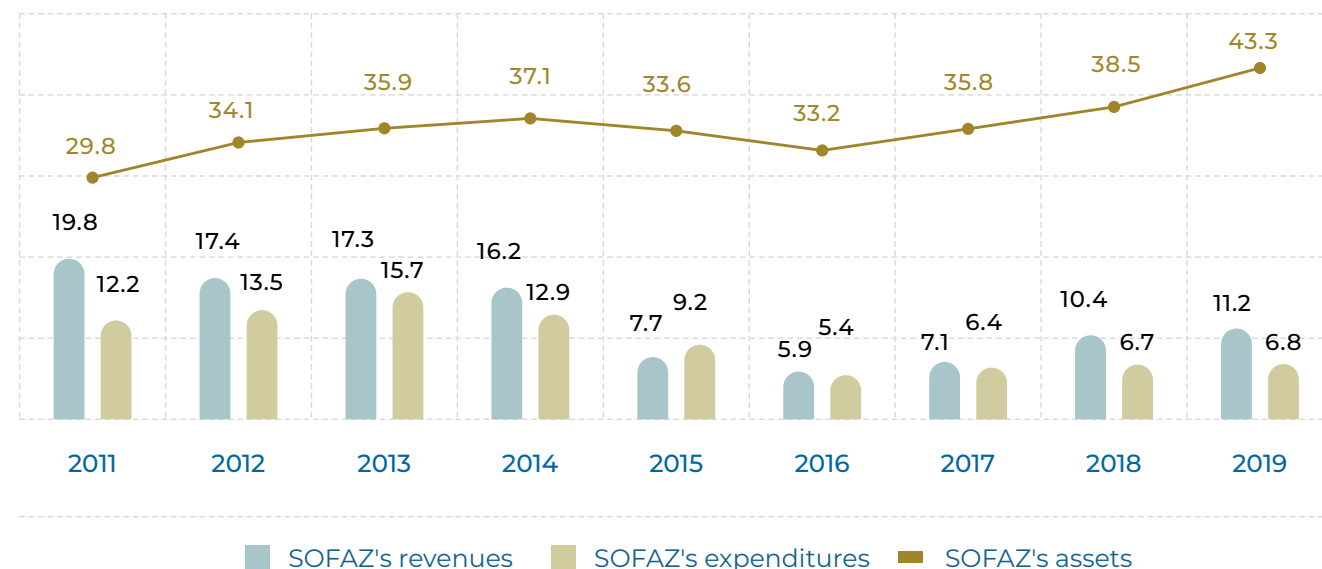
Chart 4.1.6. SOFAZ assets-to-GDP ratio



Source: SOFAZ, SSC

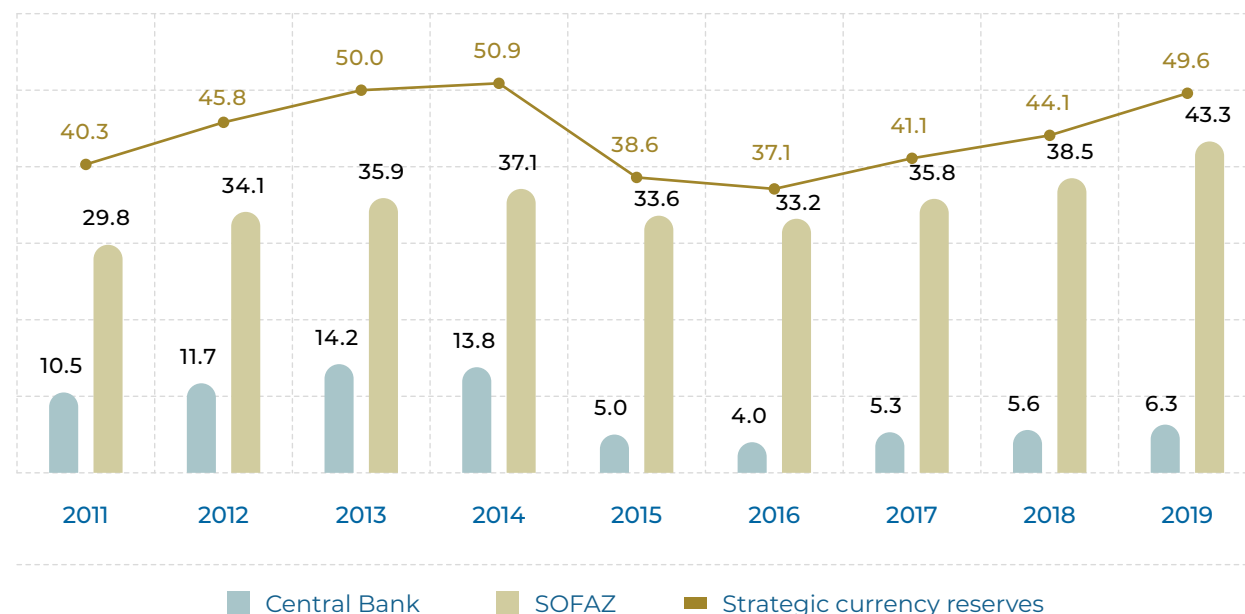
Against the background of stable oil prices, as well as the highest-ever revenues from the management of the Fund's assets in the reference year, SOFAZ's revenues underwent a significant growth. As the average annual price per barrel amounted to USD 64, the Fund's annual revenues equaled USD 11.19 billion, and the overall assets constituted USD 43.32 billion.

Chart 4.1.7. SOFAZ's revenues, expenditures and assets (USD billion)



At the same time, official currency reserves of CBAR in 2019 rose by USD 632.3 million (11.2%) to achieve the level of USD 6 258.0 million compared to the start of 2019 (USD 5 625.7 million). Thus, the aggregate volume of the strategic currency reserves (SOFAZ and CBAR combined) amounted to USD 49.6 billion.

Chart 4.1.8. Strategic currency reserves (USD billion)



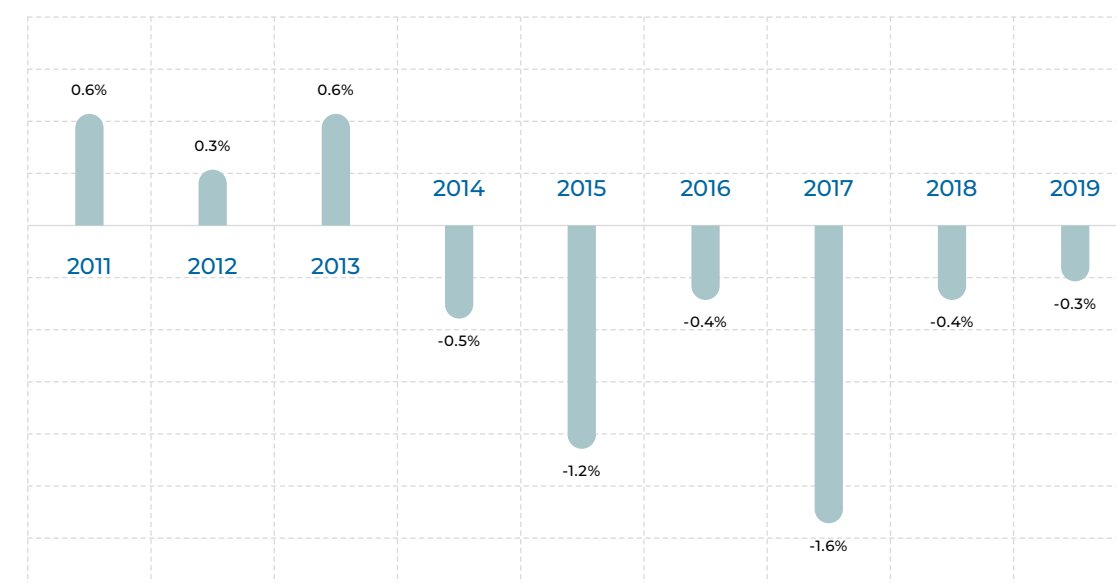
Sources: SOFAZ, CBAR

Securing Fiscal Sustainability

In 2019, SOFAZ played a crucial role in preserving fiscal balance in Azerbaijan. Thus, AZN 11.36 billion or 47.0% of the state budgetary revenues were formed out of the transfer from SOFAZ. SOFAZ has managed to secure fiscal stability by providing payments in a timely manner regardless oil prices. The accumulation of reserves in SOFAZ has also positively contributed to financial sustainability and falling public debt levels.

At the same time, revenues and expenditures of the state budget amounted to AZN 24 218.1 million and AZN 24 425.9 million, respectively, and the state budget deficit in 2019 totalled -0.3% of the country's GDP (AZN 81 681.0 million).

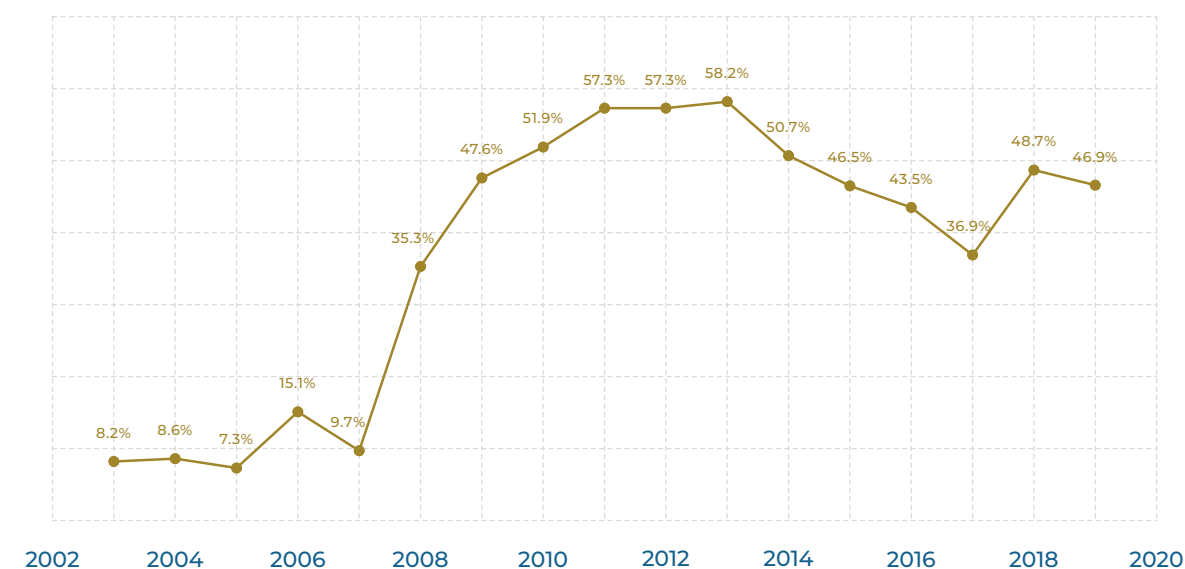
Chart 4.1.9. State budget deficit/profit in 2011-2019 (share of GDP)



Source: CBAR

During the period from 2003 to 2019, the cumulative transfer from the Fund to the state budget has reached AZN 99.94 billion.

Chart 4.1.10. Share of the SOFAZ transfers in the state budgetary revenues in 2003-2019



Sources: SOFAZ, SSC

The average annual price of crude oil being USD 64, contrary to the projected level of USD 60, made it possible for the SOFAZ's overall revenues in 2019 to exceed the level confirmed in the budget plan by 23.2%, while the revenues from the managements of the Fund's assets were over-executed by 151.4%. During the years of 2001-2019, the inflows to SOFAZ constituted USD 159.4 billion, while approximately 43.3 billion (27.2%) thereof has been channeled into saving.

FISCAL APPROACHES OF RESOURCE EXPORTING COUNTRIES: THREE CASES

Endowment with natural resources can often be a reason of multiple and complicatedly interwoven economic malaises. The unstable and cyclical character of pricing for most major resources, and the disincentive for economic and institutional development that may come with high resource revenues, have caused trouble for many resource exporter countries. Since resource extraction across the world is in many countries fully or partially government-controlled, sound management of fiscal policy bears particular significance. The major challenges which resource countries have to handle, are: shielding public spending from the ebbs and flows of the resource cycle, saving part of the revenues for future generations and ensuring that these windfall revenues are spent to resolve the long-term development issues. However, each country faces a certain trade-off and must prioritise some goals over others, based on its vision of national development and macroeconomic position. Here we will have a brief look at the fiscal frameworks of three different resource countries which in some respect became exemplary.

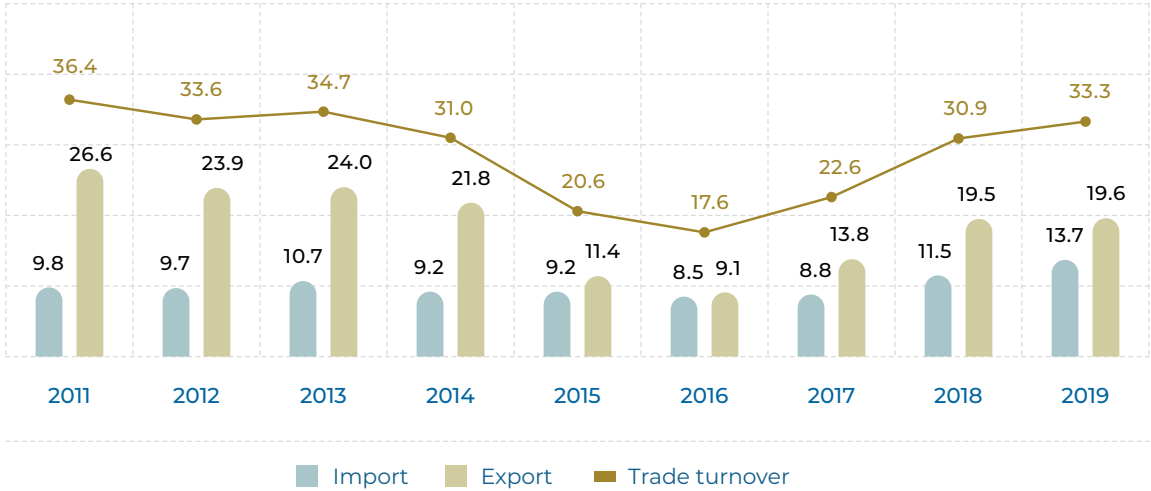
One of the first countries established a large resource fund was Norway. After the initial accumulation period, it adhered to the so-called “bird-in-hand” rule whereas it allowed to spend only the revenues from the management of the Fund’s assets, while the oil revenues per se were channeled into the Fund. This policy allowed to accumulate unprecedented wealth in Norway’s two sovereign funds, which has recently been around \$1 trillion, and was often showcased as an exemplary approach to managing oil wealth. However, one must take into account the country’s initial conditions: Norway did not experience acute infrastructural deficiencies and had already been a middle-income market economy by the time it started to extract oil, so it was not as strongly dependent on oil incomes as most other exporters are. That’s why developing countries had to look for other models. Chile’s response is now considered as one of the best. This major copper producer aimed at protecting itself from pro-cyclicality- sharp swings in public expenditure that may happen if a country spends most of the peak revenue without considering saving some of them for the periods of low prices. To that end, Chile adopted a structural balance rule, which establishes upper limits to the amount of resource revenues that can be spent each year, and the rule is designed in the way that these limits are roughly flat across the years, notwithstanding de-facto annual resource revenues. Any extra revenues are channeled into the country’s Reserve Fund, which accumulates them for “rainy days” or to the “financial airbag”, and Pension Fund that functions to fulfill the state’s pension obligations. This policy helped Chile to stabilise its annual expenditures, avoiding “crowding-out” effects and sustain (in fact, even raise) spending in the crisis years, thus helping to overcome them smoothly. At the same time, it doesn’t put a goal of constantly accumulating large long-term reserves, which currently constitute around 15% of the Chilean GDP.

Botswana, Africa’s diamond-rich economy, has chosen yet another approach. It authorized the use of resource revenue solely to finance investment expenditures exclusively- developing infrastructure, boosting non-resource economy, sponsoring healthcare and education which are among the best in Africa. All the investment opportunities must be reviewed and confirmed by a special independent body and included into the National Development Plan.

Foreign Trade

According to the State Customs Committee of the Republic of Azerbaijan (SCCA), the country’s foreign trade turnover in the reference year amounted to USD 33.31 billion, the exports and imports constituting USD 19.64 billion and USD 13.67 billion respectively. In the reference year, an increase in the volume of foreign trade turnover by 7.7%, compared to the relevant indicator of the previous year was observed, while exports rose by 0.9% and the imports increased by 19.3%.

Chart 4.1.11. Foreign trade turnover (USD billion)

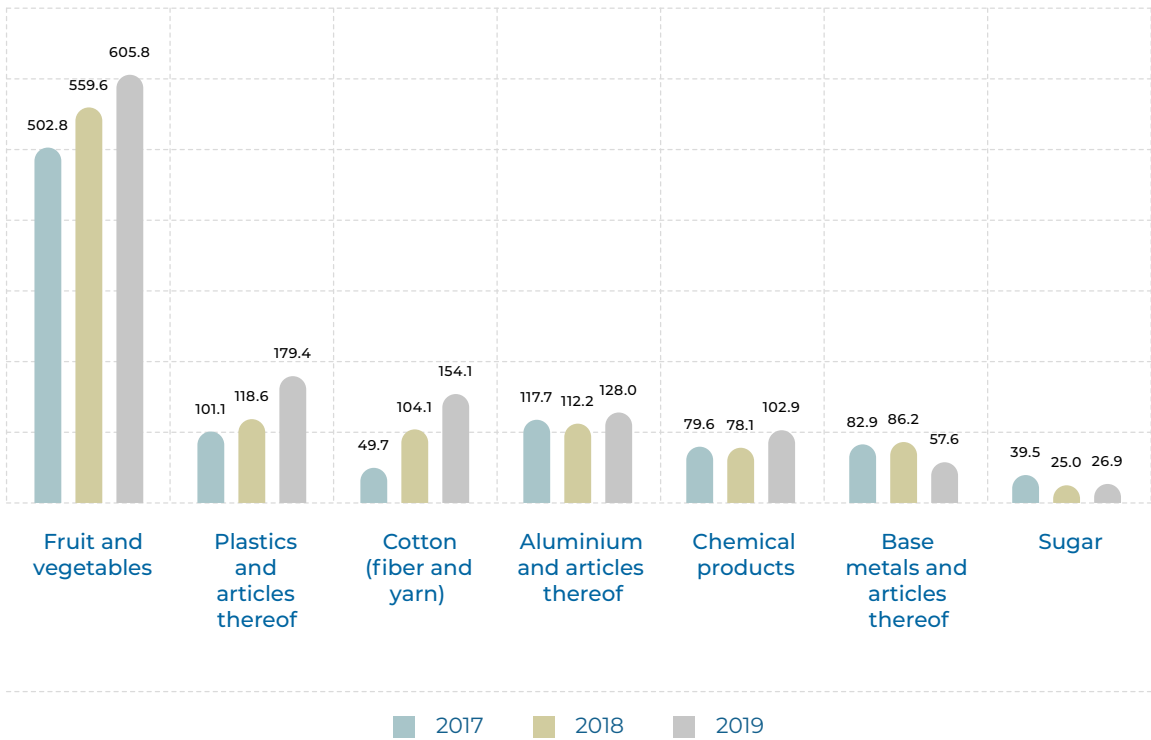


Source: SCCA

Non-oil sector export

In 2019, non-oil export mainly consisted of fruit and vegetables, plastics, aluminium, base metals and items made of them, cotton and chemical products. As Chart 4.1.12. shows, a sufficient increase in such export items as fruit, vegetables and cotton was observed.

Chart 4.1.12. Major non-oil goods export (USD million)



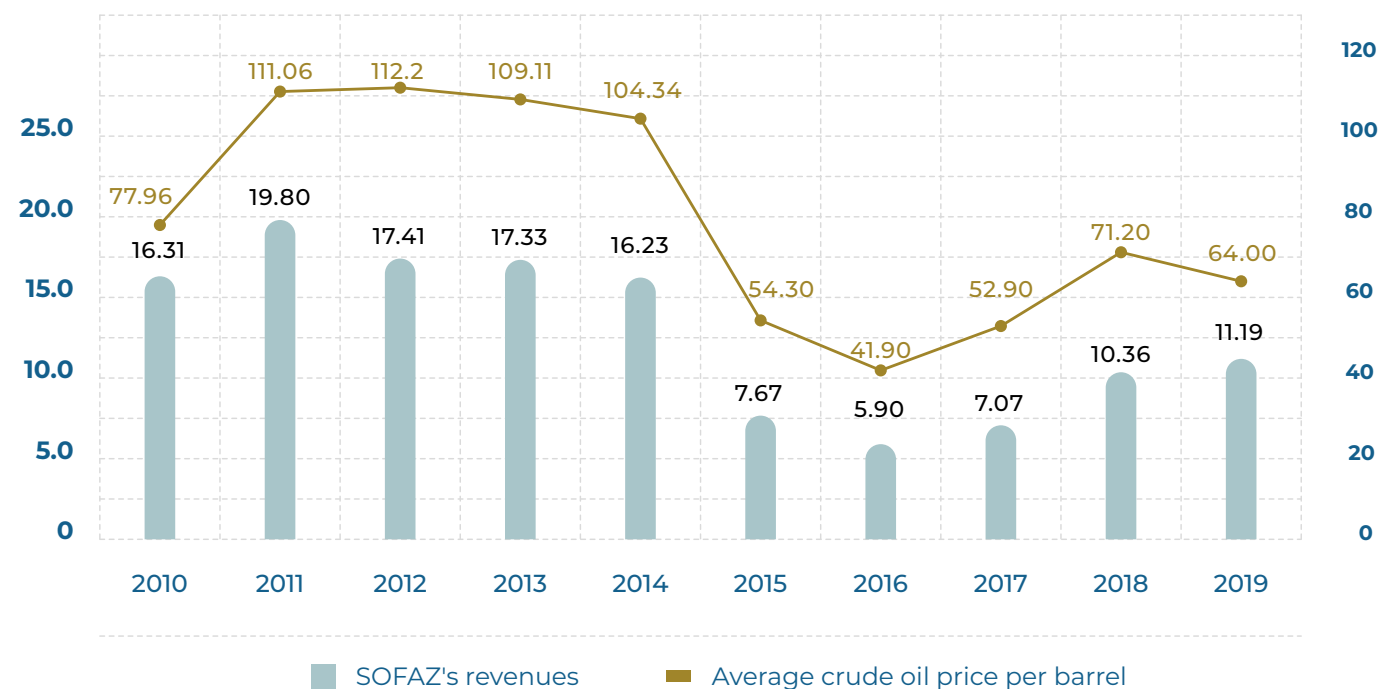
Source: SCCA

4.2. SOFAZ'S REVENUES

While the average annual crude oil price per barrel was projected at the level of USD 60 in SOFAZ's 2019 budget, it amounted to USD 64 in 2019. Hence, the higher-than-expected oil prices caused the revenues obtained from the sales of the Republic of Azerbaijan's share of hydrocarbons to exceed the projected amount. In the reference year, the sources of the SOFAZ budgetary revenues included proceeds from the sales of the Republic of Azerbaijan's

share of hydrocarbons, bonus payments, acreage fees, the fees paid to the Republic of Azerbaijan for the transit of oil and gas through its territory, and revenues from the management of the Fund's assets. By the end of 2019, SOFAZ's budget revenues increased by 8% in dollar terms, compared to the previous year's outcome (USD 10 361.0 million), and constituted AZN 19 030.6 million (USD 11 194.5 million).

Chart 4.2.1. SOFAZ's revenues (USD billion) and average crude oil price (USD per barrel)



Proceeds from the sales of profit oil and gas. In 2019, a sum of AZN 14 614.7 million or USD 8 596.9 million, entered into SOFAZ's budget from the sales of profit oil and gas.

In accordance with the Production Sharing Agreements (PSA) that regulate oil production both onshore and offshore, 92.1% of the revenues generated from the sales of profit oil and gas in 2019, or USD 7 921.3 million, came from the sale of oil extracted from the Azeri-Chirag-Gunashli (ACG) field, while a sum of USD 277.3 million was received from the sale of gas from Shah Deniz field, USD 343.2 million from the share of gas condensate and the remaining USD 55.1 million was earned from the sales of oil extracted from other oil fields. Moreover, in accordance with the agreements between SOCAR (the Republic of Azerbaijan) and the buyers on the sales of gas within the framework of the Shah Deniz "Stage 1" project, the amount of USD 820.4 million that was paid by SOCAR for the purchase of the amounts of natural gas exceeding the agreed annual level since May 2016, were not transferred to SOFAZ.

Chart 4.2.2. SOFAZ's revenues in 2019 (million USD)

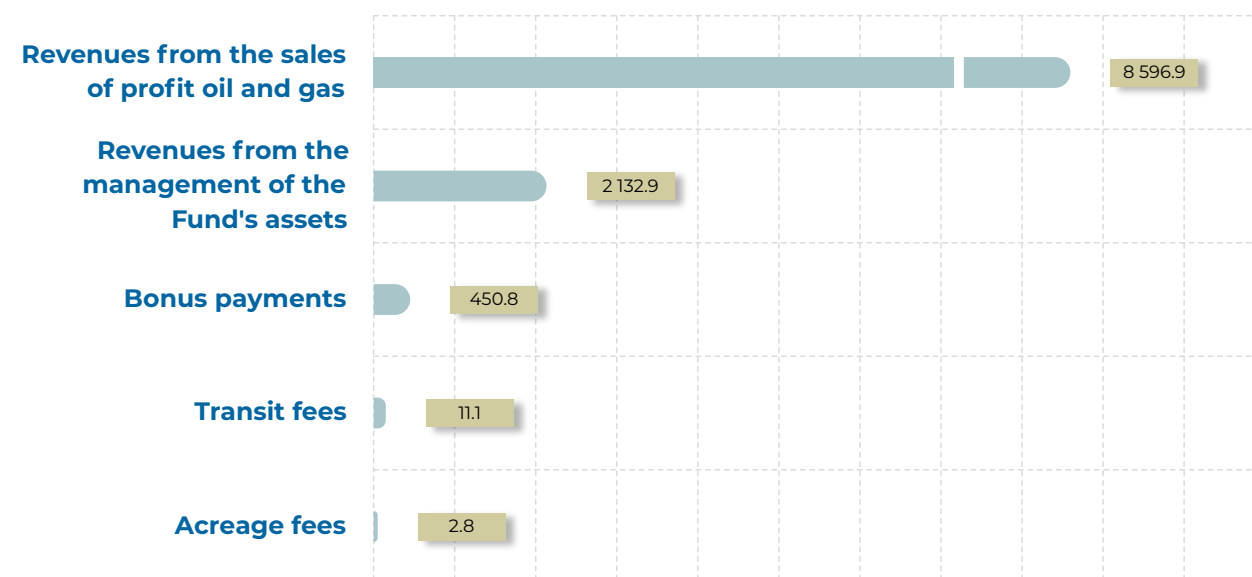
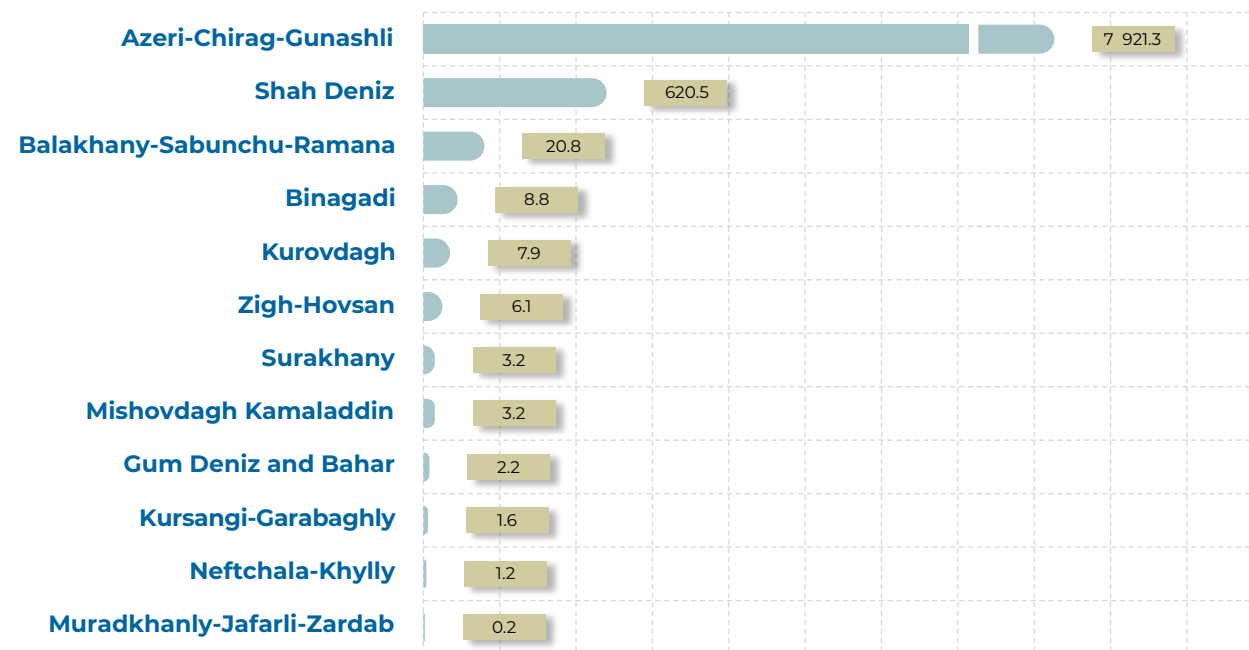


Chart 4.2.3. Distribution structure of the inflows from the sales of profit oil and gas by fields, 2019 (million USD)



Revenues from the management of SOFAZ's assets. In accordance with SOFAZ's investment policy for 2019, assets were invested in fixed income (debt and money market instruments), equities, real estate and gold. SOFAZ's revenues from asset management totaled USD 2 132.9 million, or AZN 3 625.9 million. In the reference year, the average annual rate of return from the Fund's investment portfolio increased by 4.94%, compared to 2018 (0.35%), and reached 5.29%.

Bonus payments. In 2019, SOFAZ's revenues from bonuses paid by investors for signing and fulfilling oil and gas contracts amounted to USD 450.8 million or AZN 766.4 million. Bonus payment inflows are illustrated in the Table 4.2.1.

Table 4.2.1. SOFAZ's proceeds from bonus payments in 2019

Name of issuing organization	Oil field	Date	Amount, million	
			USD	AZN
BP Exploration (Caspian Sea) Ltd.	Azeri-Chirag-Gunashli	03.01.2019	450.00	765.00
BP Exploration (Caspian Sea) Ltd.	Shah Deniz	25.01.2019	0.27	0.47
Petronas	Shah Deniz	29.01.2019	0.15	0.25
LUKOIL	Shah Deniz	29.01.2019	0.10	0.16
NICO	Shah Deniz	29.01.2019	0.09	0.16
TPAO	Shah Deniz	31.01.2019	0.18	0.31
Total			450.79	766.35

Transit fees. In 2019, another revenue inflow was generated from the transportation of oil and gas through the territory of Azerbaijan (transit fees). The amount of transit fees transferred to the Fund's budget constituted USD 11.1 million or AZN 18.9 million. Detailed information on this revenue item is provided in the Table 4.2.2.

Table 4.2.2. Proceeds from transit fees in 2019

Name of issuing organization	Date	Amount, million	
		USD	AZN
AIOC	15.01.2019	1.09	1.84
AIOC	13.02.2019	0.95	1.62
AIOC	13.03.2019	0.98	1.66
AIOC	15.04.2019	1.10	1.88
AIOC	13.05.2019	0.55	0.95
AIOC	18.06.2019	0.59	1.00

AIOC	12.07.2019	1.05	1.79
AIOC	14.08.2019	0.49	0.83
AIOC	12.09.2019	1.09	1.85
AIOC	15.10.2019	1.06	1.80
AIOC	19.11.2019	1.10	1.88
AIOC	12.12.2019	1.09	1.84
Total		11.14	18.94

Acreage fees. In 2019, the amount of USD 2.8 million (AZN 4.7 million) of acreage fees was transferred to SOFAZ in accordance with the offshore exploration and production sharing agreement between SOCAR and the oil company co-owned by SOCAR and BP Exploration (Caspian Sea) Limited (Azerbaijan) over the Shafag-Asiman field in the Azerbaijani sector of the Caspian. Acreage fees per company are represented in the Table 4.2.3.

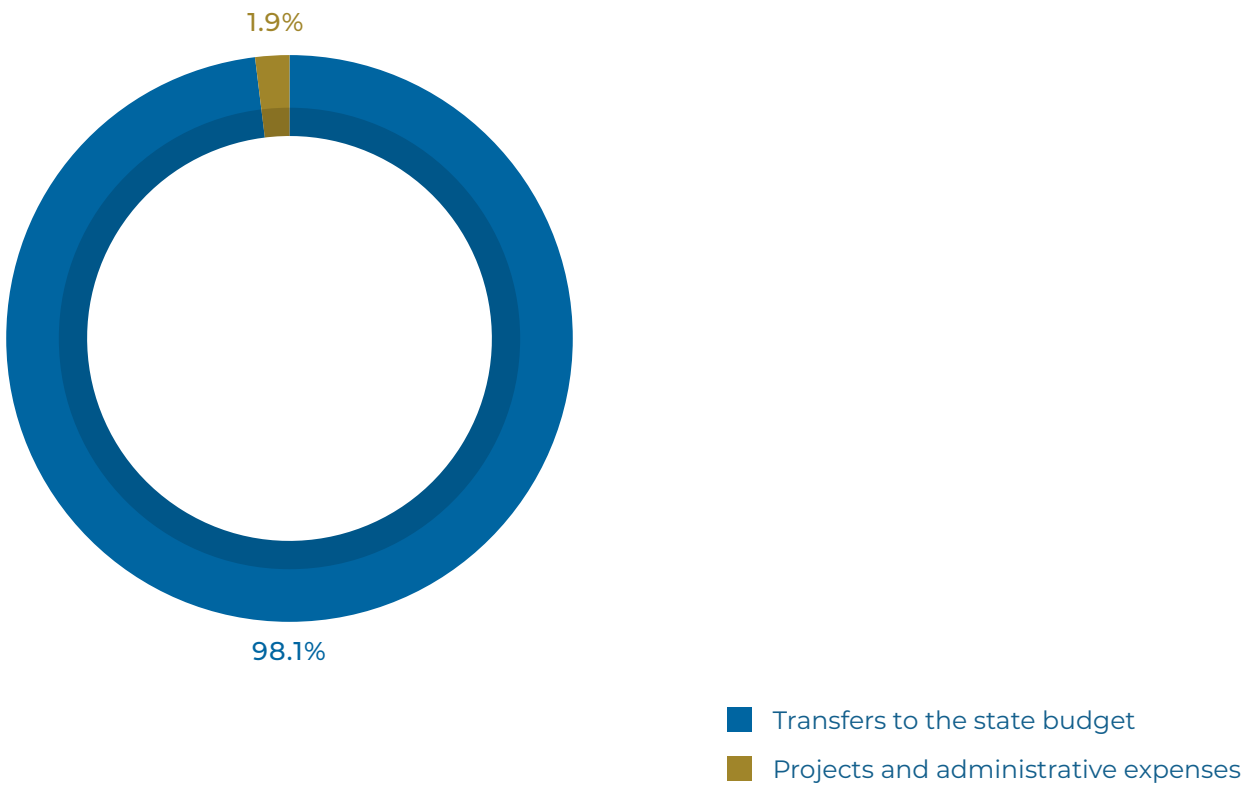
Table 4.2.3. Proceeds from acreage fees in 2019

Name of issuing organization	Oil field	Date	Amount, million	
			USD	AZN
BP Exploration (Caspian Sea) Ltd.	Shallow-water area around the Absheron Peninsula	24.04.2019	0.64	1.09
BP Exploration (Caspian Sea) Ltd.	Shafag-Asiman	05.07.2019	2.12	3.60
Total			2.76	4.69

4.3. SOFAZ'S EXPENDITURES

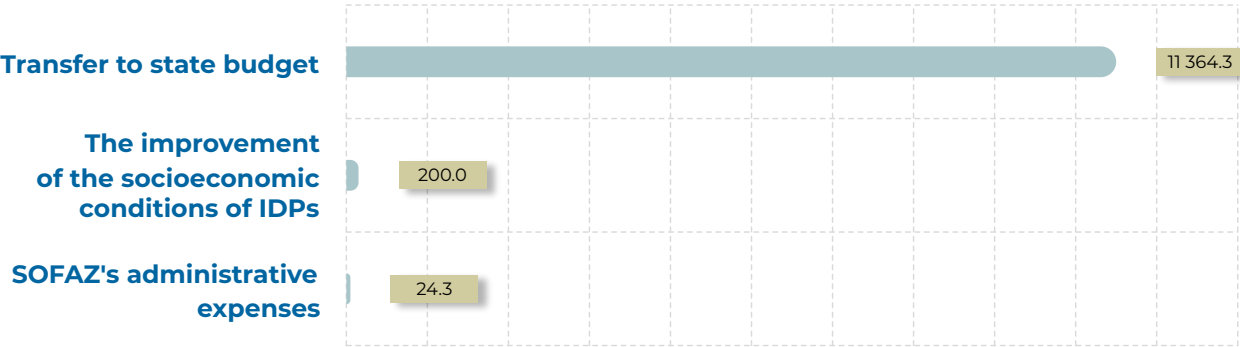
In 2019, transfer to the state budget, expenditures related to the resettlement measures of internally displaced persons (IDPs) and SOFAZ's administrative expenses made up total budget expenditures of SOFAZ, that amounted to AZN 11 588.6 million or USD 6 816.8 million. In the reference year, 98.1% of the total budget expenditures accrued for the transfer to the state budget

Chart 4.3.1. Structure of SOFAZ's expenditures in 2019



(AZN 11 364.3 million). Financing of social projects and SOFAZ's administrative expenses accounted for AZN 200 million and AZN 24.3 million, respectively, making up 1.9% of the total budget expenditures of SOFAZ in 2019. The breakdown of SOFAZ's expenditures is provided in the charts 4.3.1 and 4.3.2.

Chart 4.3.2. Structure of SOFAZ's expenditures in 2019 (million, AZN)



Transfer to the state budget. In the reference year, state budget revenues constituted AZN 24 218.1 million, 46.9% of which made up transfers from SOFAZ (AZN 11 364.3 million). The transfer covered 46.5% (AZN 24 425.9 million) of state budget expenditures.

Throughout the years 2003-2019, the overall transfer from the Fund to the state budget amounted to AZN 99.9 billion or USD 99.7 billion, which is 88.9% of all the SOFAZ budgetary expenditures (AZN 112.4 billion) this far. Transfers to the state budget by years and transfers from SOFAZ as a share of the state budget revenues and expenditures in 2003-2019 are represented in the charts 4.3.3, 4.3.4 and 4.3.5.

Chart 4.3.3. Transfers to the state budget by years (million, AZN)

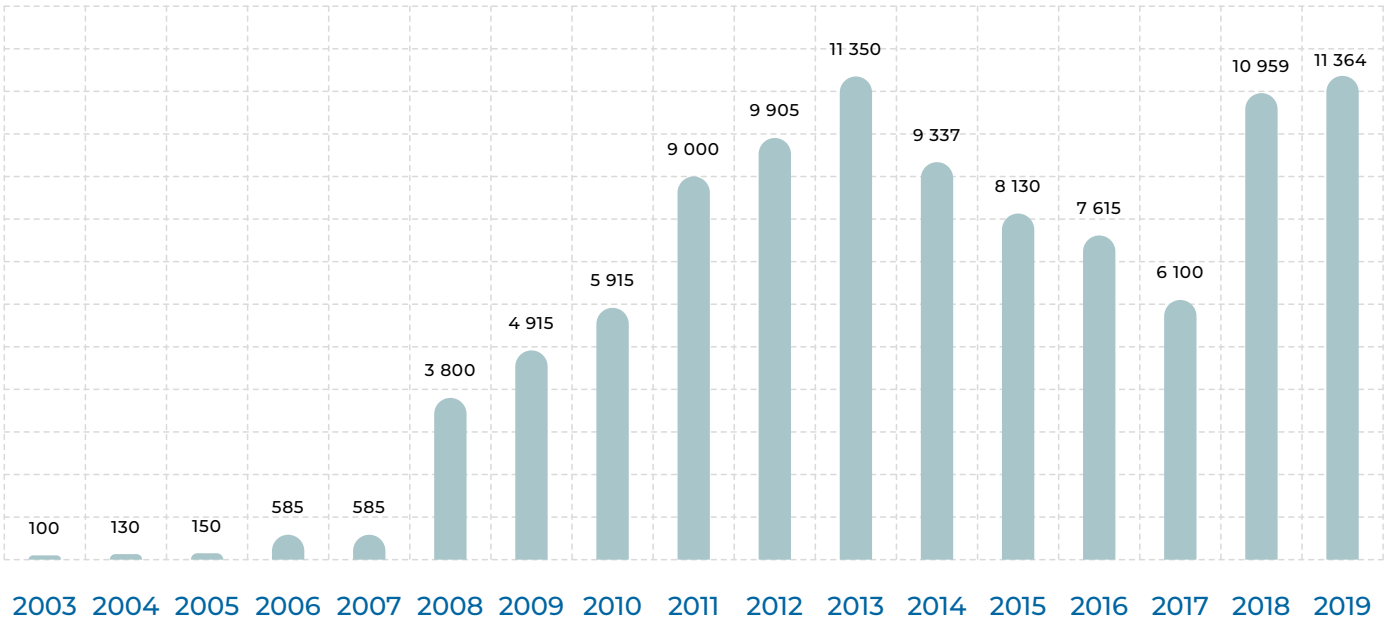


Chart 4.3.4. Transfers from SOFAZ as a share of the state budget revenues

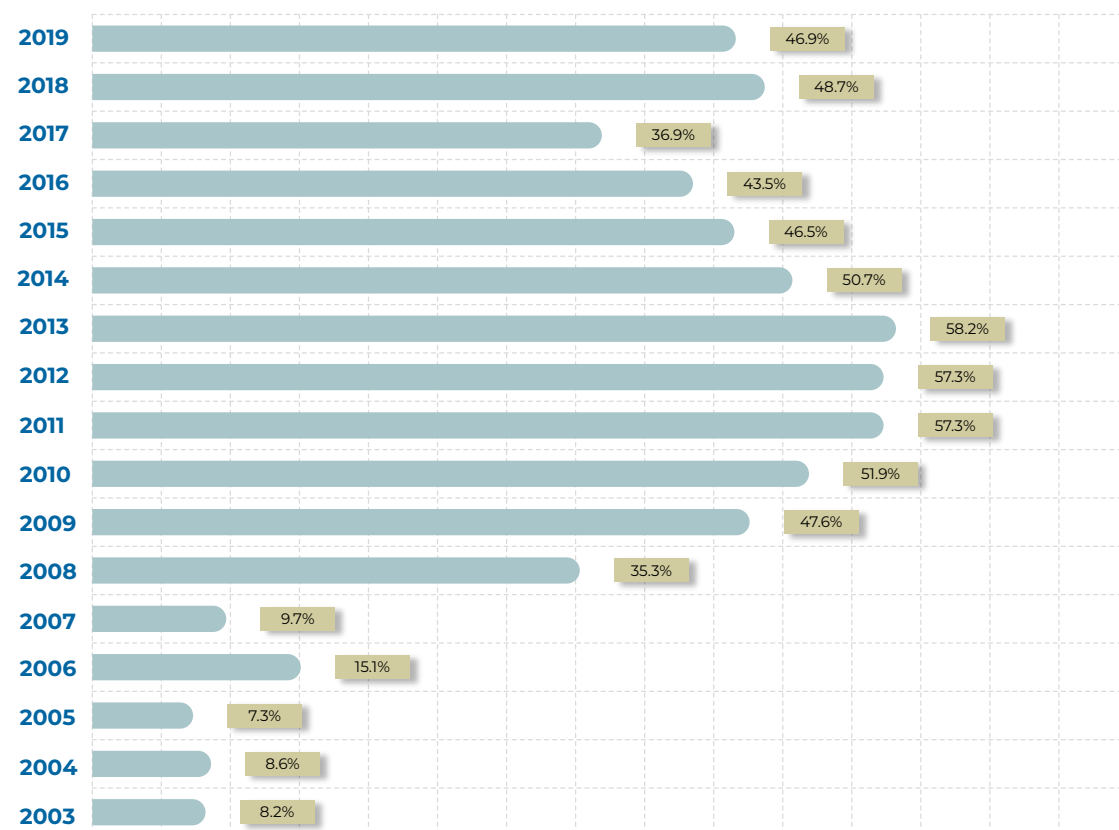
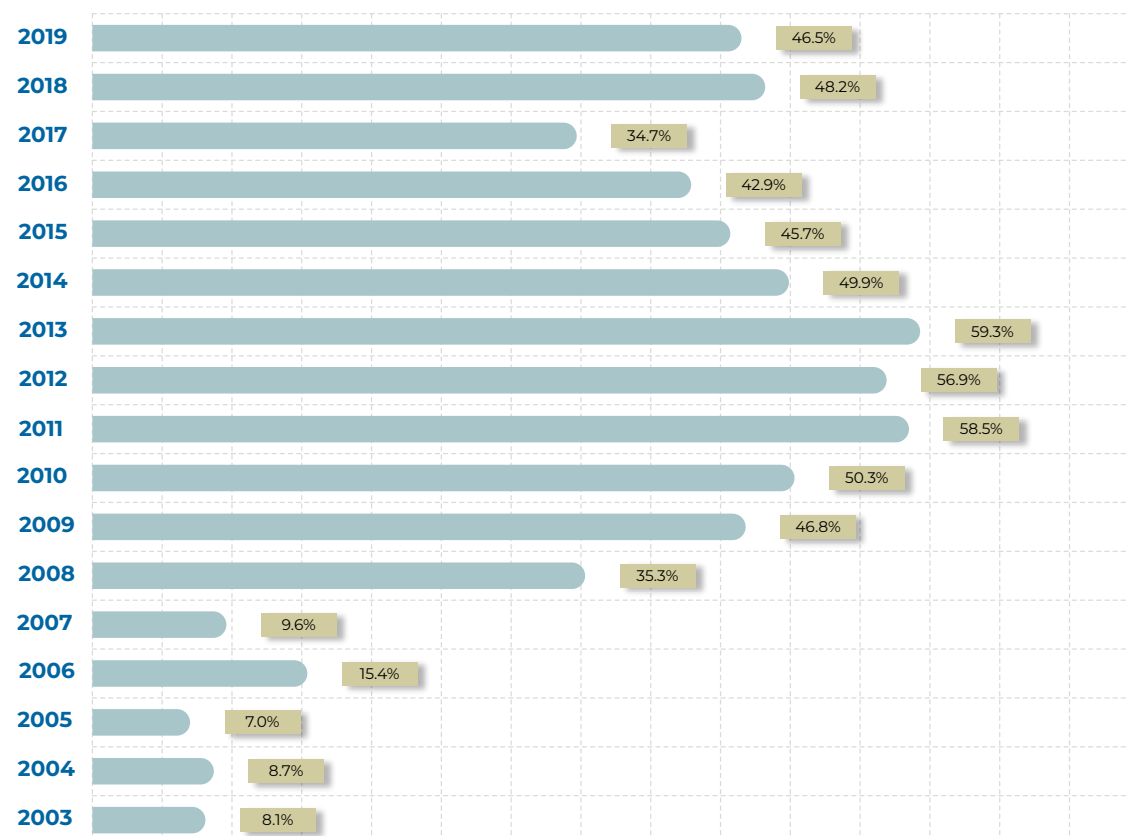
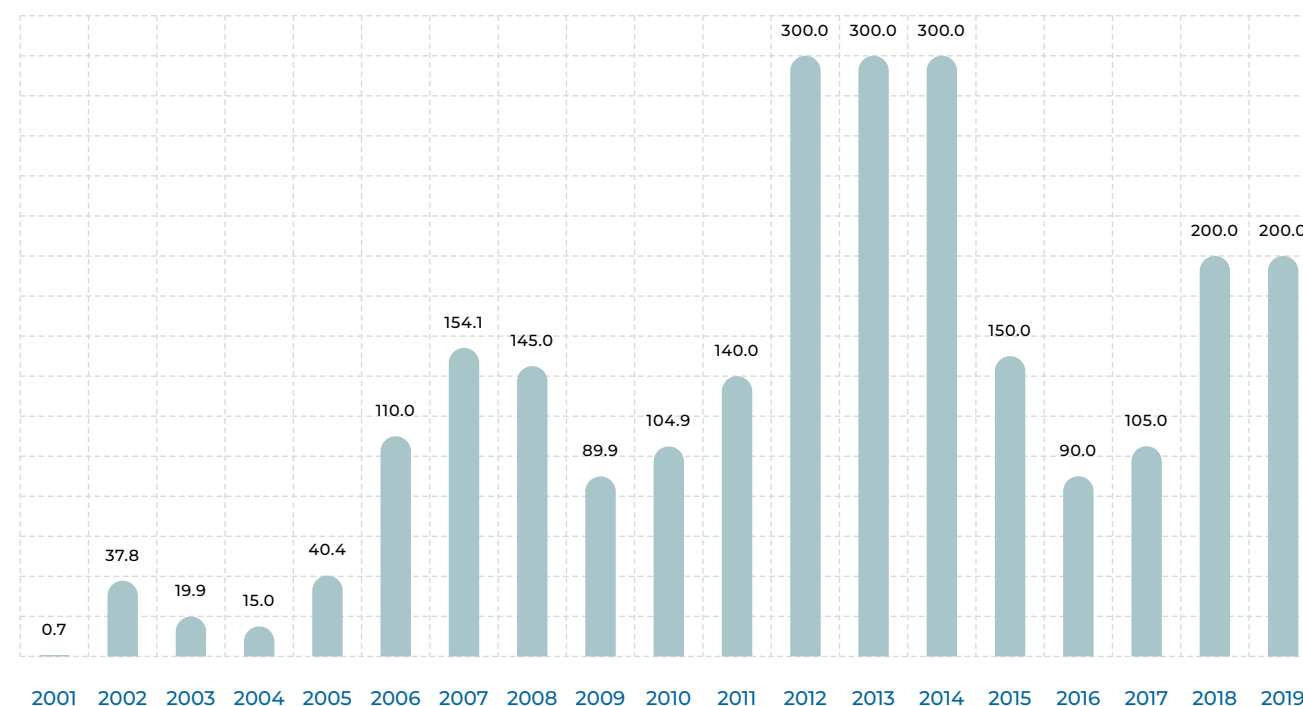


Chart 4.3.5. Transfers from SOFAZ as a share of the state budget expenditures



The improvement of the socioeconomic conditions of internally displaced persons (IDPs). The financing of “The State Program on the improvement of the socioeconomic conditions of refugees and internally displaced persons (IDPs)” has been undertaken by SOFAZ since 2001. Overall AZN 2 502.7 million has been spent on this program throughout the period of 2001-2019. More specifically, the amount allocated to the improvement of the socioeconomic conditions of internally displaced persons constituted AZN 200 million in the reference year. The annual breakdown of the spending for this program can be seen in the Chart 4.3.6.

Chart 4.3.6. Expenditures on the improvement of socioeconomic conditions of refugees and IDPs by years (million AZN)



Aforementioned funds were allocated for the construction of 72 residential districts of private houses, 22 residential blocks with multi-storeyed buildings that in total allow for the settlement of 36 752 families, and a large number of socio-infrastructure objects. In 2019, 1 residential district and 3 residential blocks were built, and 1 855 families were settled. In addition, 4 schools, 4 kindergartens, 3 medical centres, 4 community centres, 4 administrative buildings, 2 communication junctions, 11 water reservoirs, 12 pumping stations, 20 high voltage electric transformers, 1 electric sub-station, 19.2 km of highways, 41.9 km of water pipelines, 69.3 km of transmission lines, 54.4 km of gas pipelines, 9.3 km of sewerage lines were built and completed within the framework of the program in 2019.

In the reference year, the expenditures on the improvement of socioeconomic condition of IDPs constituted 1.7% of the total budget expenditures of SOFAZ and remained at the same level with 2018.

PROJECTS FINANCED BY SOFAZ



2001

- SOFAZ finances its first project; "Improving the social conditions of refugees and internally displaced persons".



2005

- The inauguration ceremony of the Azerbaijani section of Baku-Tbilisi-Ceyhan oil export pipeline takes place.



2007

- SOFAZ finances "Baku-Tbilisi-Kars New Railway" project.



2002

- SOFAZ finances the share of Azerbaijan in the Baku-Tbilisi-Ceyhan Main Export Pipeline project.



2006

- SOFAZ finances "Oguz-Gabala-Baku water pipeline construction" and "Reconstruction of Samur-Absheron irrigation system" projects.
- SOFAZ funds the formation of the statutory capital of Azerbaijan Investment Company.



2010

- Oguz-Gabala-Baku water pipeline becomes operational.



2008

- SOFAZ finances the "State Program on education of Azerbaijan youth abroad in the years 2007-2015".



2018

- The official opening ceremony of "Star" Oil Refinery Complex takes place.
- A new semi-submersible drilling rig named after Heydar Aliyev becomes operational.



2019

- The inauguration ceremony of the Trans-Anatolian Natural Gas Pipeline (TANAP) takes place in Turkey.



2017

- The official opening ceremony of Baku-Tbilisi-Kars railway takes place.



2014

- The groundbreaking ceremony of "Southern Gas Corridor" takes place.
- SOFAZ finances the share of Azerbaijan in the "Southern Gas Corridor" CJSC statutory capital.

5. INVESTMENTS

5.1. INVESTMENT STRATEGY

SOFAZ's investment strategy is aimed at maximizing long-term risk-adjusted returns. Broad diversification among the asset classes and across the countries, along with monitoring and analysis of macroeconomic environment, serves this strategic goal and assures the persistence of stable investment performance.

The government has laid down general principles and guidelines for the efficient management of the SOFAZ's assets in order to set up the legal framework for SOFAZ's investment mandate and ensure the transparency in the Fund's investment decisions. SOFAZ's investment portfolio is managed in accordance with the "Rules on managing the foreign currency assets of SOFAZ" ("Investment Guidelines"), approved by Presidential Decree No. 511 of 19 June 2001 and the Investment Policy approved by Presidential Orders on an annual basis.

"Investment Guidelines" sets the general principles of SOFAZ's asset management framework. Along with other purposes, it outlines permissible asset classes, currencies, limitations on investment instruments, minimum requirements for SOFAZ's external managers, and defines the credit quality limits for SOFAZ's counterparties (custodian banks, correspondent banks,

etc.). Investment Policy defines the objectives, forecasted size, currency composition, strategic asset allocation, benchmarks, and risk limits for the SOFAZ's investment portfolio.

In line with the long-term objectives, asset class composition of SOFAZ's investment portfolio is reviewed and approved annually. According to the 2019 Investment Policy, the asset allocation of the investment portfolio is defined as below:

- 55% - Debt obligations and money market instruments (along with maximum lower deviation of 5%);
- 25% - Equities (up to 5% can be invested in private equity and non-rated fixed income debt funds);
- 10% - Real estate (along with maximum upper deviation of 2%);
- 10% - Gold (along with maximum upper deviation of 3%).

As of December 2019, 68.7% of the investment portfolio comprised of fixed income and money market securities, while 14.1%, 11.4%, and 5.8% were invested in equities, gold, and real estate, respectively.

Table 5.1.1. Target Asset allocation



INVESTMENTS

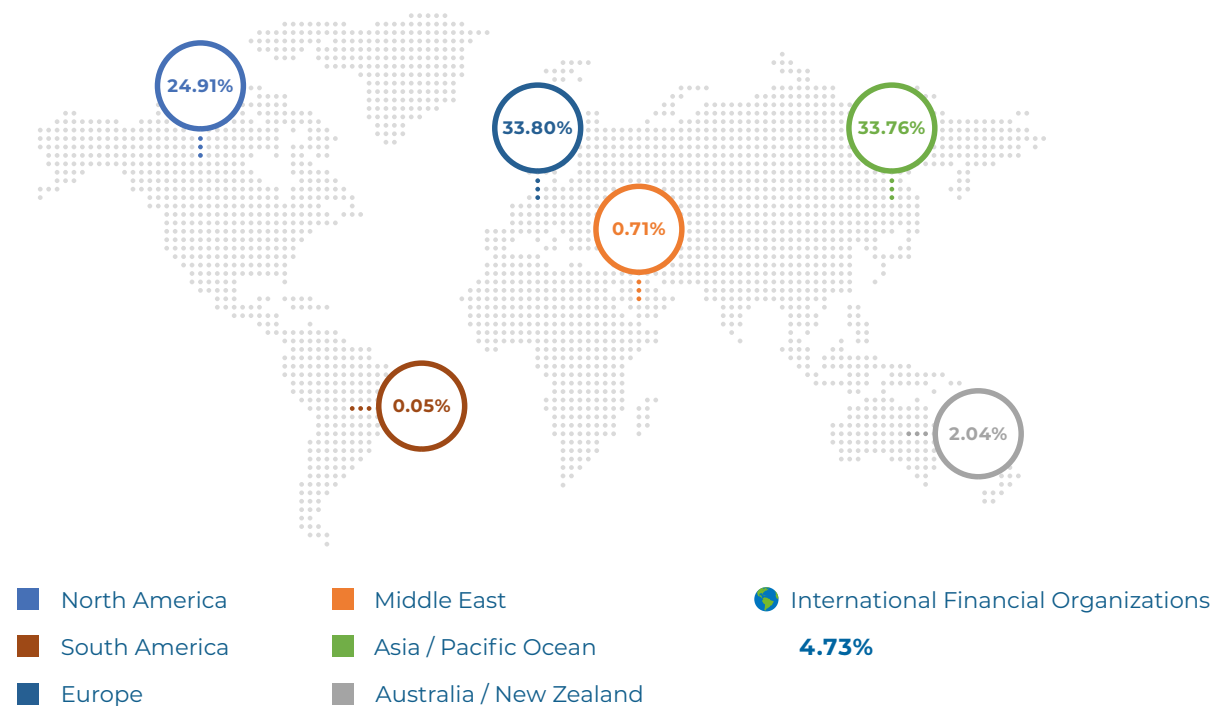
6-month LIBOR for corresponding currencies (6-month EURIBOR for assets denominated in EUR) is selected as the benchmark for the fixed income and money market instruments portfolio while the MSCI World Index is the benchmark for the equity portfolio.

Table 5.1.2. provides a summary snapshot of SOFAZ's current investment approach and its implementation to the portfolio:

Table 5.1.2. Investment Directions

Asset classes	Strategy employed	Implementation methods
Traditional	Public Equity	Exposure to global equities MSCI World Index, MSCI Europe ex UK index, S&P 100 index, strategic stake in VTB Bank.
	Fixed Income	Exposure through bonds and money market instruments Sovereign, supranational, agency, and corporate investment grade bonds and money market instruments.
Alternative	Private Equity	Exposure through private equity funds Commitments to buy-out and growth funds; Private Equity Separately Managed Mandate with Neuberger Berman; Investment in the charter capital of the Azerbaijan Rigs LLC, formed with the participation of SOFAZ (90%) and SOCAR (10%).
	Real Estate	Exposure through direct property acquisitions, co-investments, and real estate funds Direct investments into commercial real estate located in Moscow, London, Paris, Seoul and Tokyo; Co-investments in office and retail properties located in CBD areas in Germany, Japan, China, Hong Kong, the USA and Singapore; Commitments to real estate funds making commercial and logistics investments in Asia Pacific, Europe and United States.
	Gold	Exposure through physical purchase Investments through gold bars.

Chart 5.1.1. SOFAZ's investment portfolio breakdown by geographic regions



External managers

As of December 2019, 10.7% of SOFAZ's investment portfolio was managed by external managers. Benefits brought by external managers include market expertise, specific industry experience, and regional presence, thereby adding value to the investment portfolio.

The following external managers were responsible for managing the portion of SOFAZ assets:

For fixed income portfolio:

- World Bank – the World Bank Treasury manages USD 240 million (0.5% of investment portfolio);
- DWS International – manages USD 111 million (0.3% of investment portfolio).

For equity portfolio:

- UBS Asset Management – manages USD 1 775 million (4.1% of investment portfolio);
- State Street Global Advisors (SSgA) – manages USD 1 409 million (3.3% of investment portfolio);
- Mellon Investments Corporation – manages USD 390 million (0.9% of investment portfolio);
- BlackRock Investment Management – manages USD 370 million (0.8% of investment portfolio);
- Sumitomo Mitsui Trust International (Sumitomo) – manages USD 345 million (0.8% of investment portfolio).

Gold investments

According to the "Investment Policy" for 2019, up to 10% of the SOFAZ's assets can be invested into gold. During 2019, SOFAZ purchased additional 50 290 kg (1 616 873 troy ounces) of gold bars making the total outstanding amount of gold in its investment portfolio 101 244 kg (3 255 059 troy ounces) or USD 4 930 million as of 2019 year-end. More than 99% of this gold is held at the vault for storage of the valuables built in the administrative building of SOFAZ.

INVESTMENTS

5.2. SOFAZ'S INVESTMENT PORTFOLIO

Global Economy Review

The world economy has demonstrated annual 2.4% economic growth down from 4% in the previous year, being the slowest pace since the Global Financial Crisis. Given this, however, almost all assets reported double digit returns in 2019, the MSCI World has concluded the year with the best performance (25%) since 2009. Shifted from hawkish to dovish stance, the year can be summarized as the year of easing monetary policies resulting in the total of 59 interest rate cuts implemented by the major central banks including the FED and also those of the emerging economies.

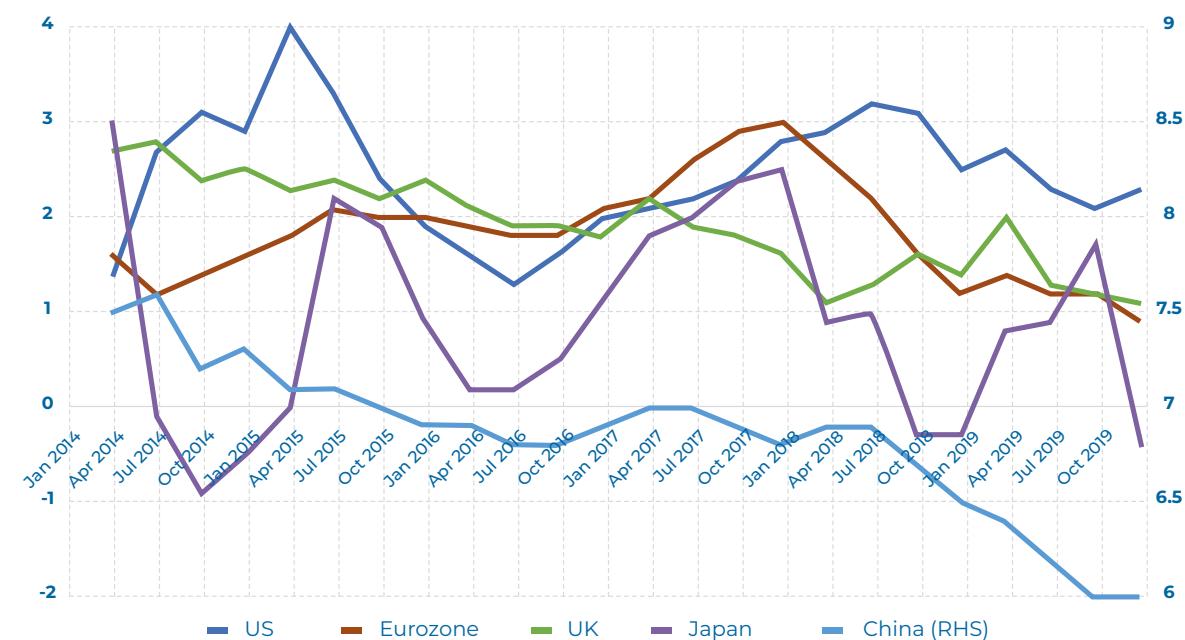
The United States experienced high economic growth, which stood at 2.3%, as a result of an economic policy experiment which was in odds with a traditional approach: that is, when the economy reached its full employment, the US has executed both an expansionary monetary policy and a fiscal policy. The economic policy had a positive impact in the short run by creating strong demand in the market, which in turn, did increase the employment rate, participation rate and also the productivity.

In contrast, in Eurozone restarting asset purchase program and a policy rate cut, failed to be effective as households have not increased their spending as it was predicted. While Germany and Italy were in the brinks of recession, France and Spain have performed

relatively well. Global economic risks created by US-China trade war, Brexit and rise of populist movements in the periphery countries, slowed the momentum in the growth of economic fundamentals. However, despite the external risks associated with economic and political trends, Eurozone economies have avoided recession thanks to continuing job growth in conjunction with sustained income flows.

In China two general tendencies have been observed during 2019: 1) continued transformation of the economy from manufacturing industry to services sector, 2) reduction in companies' profitability. The narrowing demand for the manufacturing sector, particularly for car purchases and investment in fixed assets, has reflected itself in reduced Chinese imports, which is a major drawback for the global economic growth. The latter is associated with ageing labor force in China that increases labor costs of the companies. Unable to transfer the burden of increased costs to the end consumers, the companies have been encountered with squeezed profit margins and weaker solvency. In addition to the internal headwinds, tariff barriers resulting from the US-China trade war and relevant uncertainty, have brought about less than previous year annual economic growth of 6.1% (2018: 6.6%).

Chart 5.2.1. GDP growth rate in major economies (2014-2019, percentages)

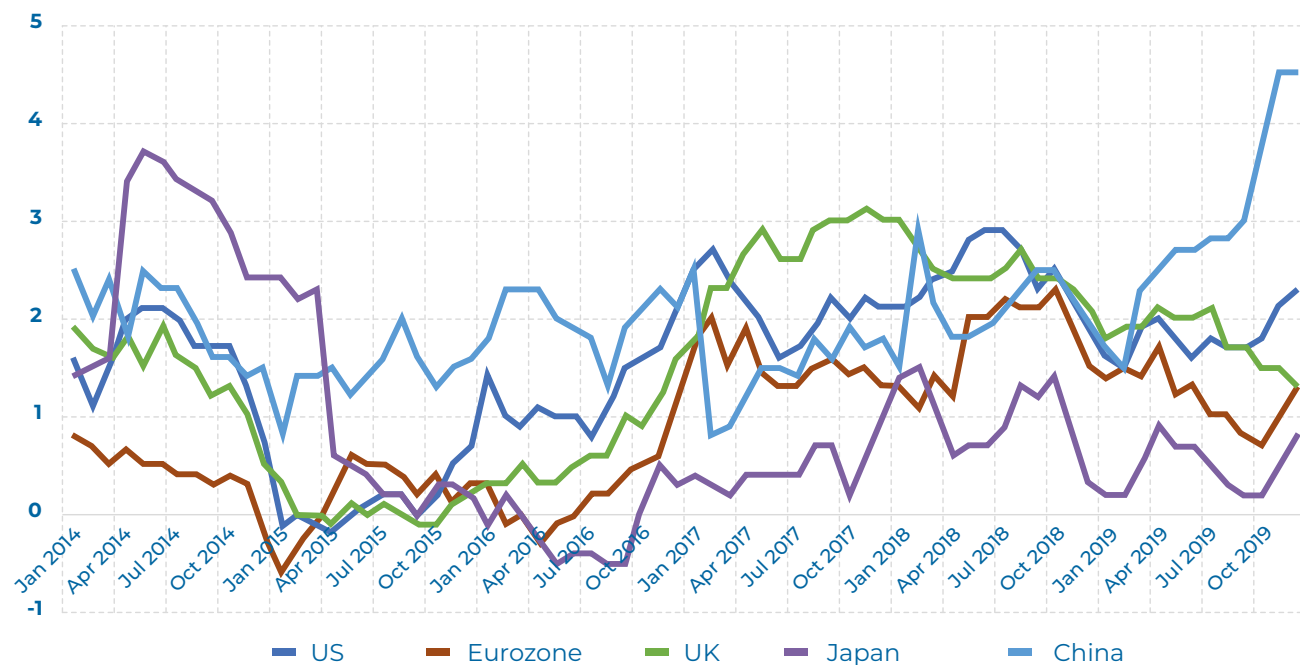


Source: Bloomberg

In 2019, inflation was relatively subdued in the major economies with the exception of China which experienced a surge in inflation as a result of rising pork prices stemming from supply shortages. While the United States' inflation rate remained below the target of 2% for most of the year, multiple cuts by the Federal Reserve helped inflation to recover and exceed the target by the end of the year. Moreover, Eurozone and Japan failed to

achieve their inflation targets despite stimulative actions by their respective central banks. On the other hand, the United Kingdom experienced inflation overshoot in the first quarter of 2019 due to stockpiling by firms that were preparing for hard Brexit. However, later on the year the inflation decreased below the Bank of England's target as Brexit related uncertainty had a drag on consumption and the overall economy.

Chart 5.2.2. Inflation rates in major economies (2014-2019, percentages)



Source: Bloomberg

Monetary Policy

Although 2019 was expected to be a year of monetary normalization and quantitative easing (QE) exit, a sharp deterioration in monetary and financial conditions at the end of 2018 following the selloff experienced by the equity and credit markets revived the belief and the prospect of interest rates being lower for longer and of a persistence of QE.

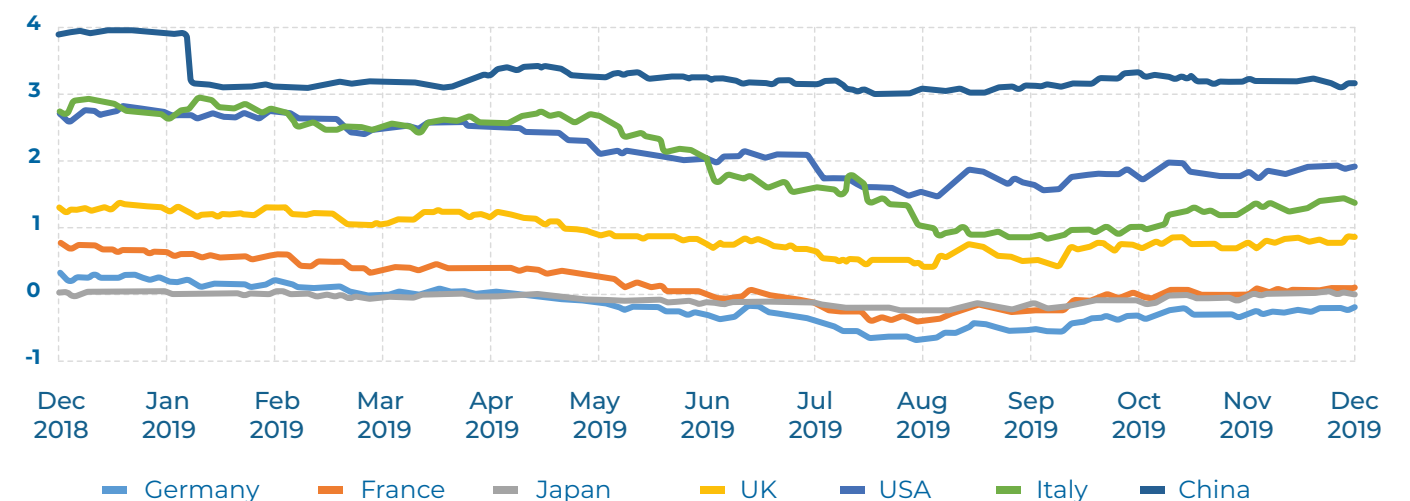
In particular the European Central Bank (ECB) cut its deposit rate by 10 bps, introduced a tiering system and then relaunched its Asset Purchases Program in November. In addition, the Governing Council announced its intentions to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme. This will be extended until the date when it starts raising the key ECB interest rates, in order to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Following a sharp tightening in financial conditions in late 2018, in January 2019 the FED pivoted away from its tightening cycle. In addition, by May the return of trade war put markets on recession watch and the FED soon turned again to rate cuts. After delivering a third rate cut at the October meeting, Chair Powell set a high barrier for further policy moves in either direction.

The Bank of England's (BOE) Monetary Policy Committee (MPC) kept the Bank Rate at 0.75% during the year. At its last meeting ending on December 18, 2019 the Committee agreed to continue the purchases of GBP 435 billion of UK government bonds financed by the issuance of central bank reserves.

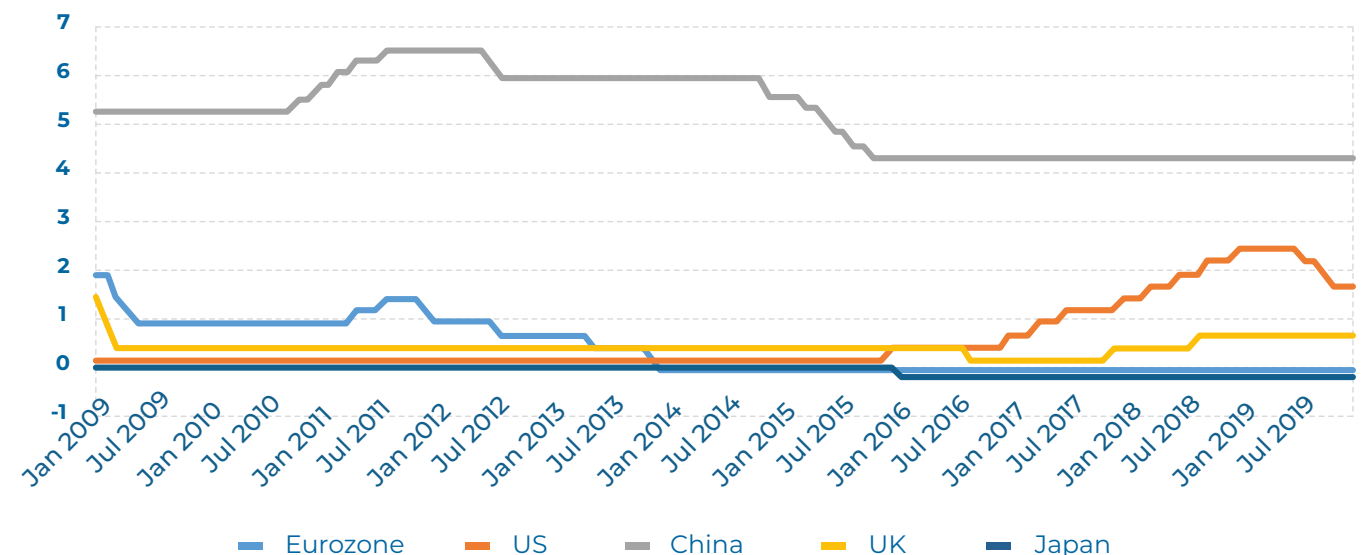
INVESTMENTS

Chart 5.2.3. 10 year generic yield



Source: Bloomberg

Chart 5.2.4. Central Banks' benchmark interest rates (2009-2019, percentages)



Source: Bloomberg

Fixed Income Markets

In 2019, the US yield curve experienced a significant downward shift across all tenors underpinned by the Federal Reserve, cutting the policy rate three times and flight to quality amid trade war uncertainty. As global economic risks surged, 10-year Treasury yields dropped to 1.46% in August. Moreover, as money markets came under stress in September, the FED had to intervene with soft QE to ensure smooth transmission of monetary policy, which supported the short end of the curve. Afterwards, as US-China inched closer to "Phase One" trade deal,

perceived risks in the global economy decreased, leading to relatively higher yields towards the end of the year with the 10 year Treasury yield hitting 1.91%. In general, the US Treasury curve was largely flat at the end of 2019, with yields dropping 60 to 90 basis points when compared to the previous year.

In the Eurozone, same flight to quality patterns were observed in the government bond market as escalation of trade war did hurt the sentiment and economic outlook

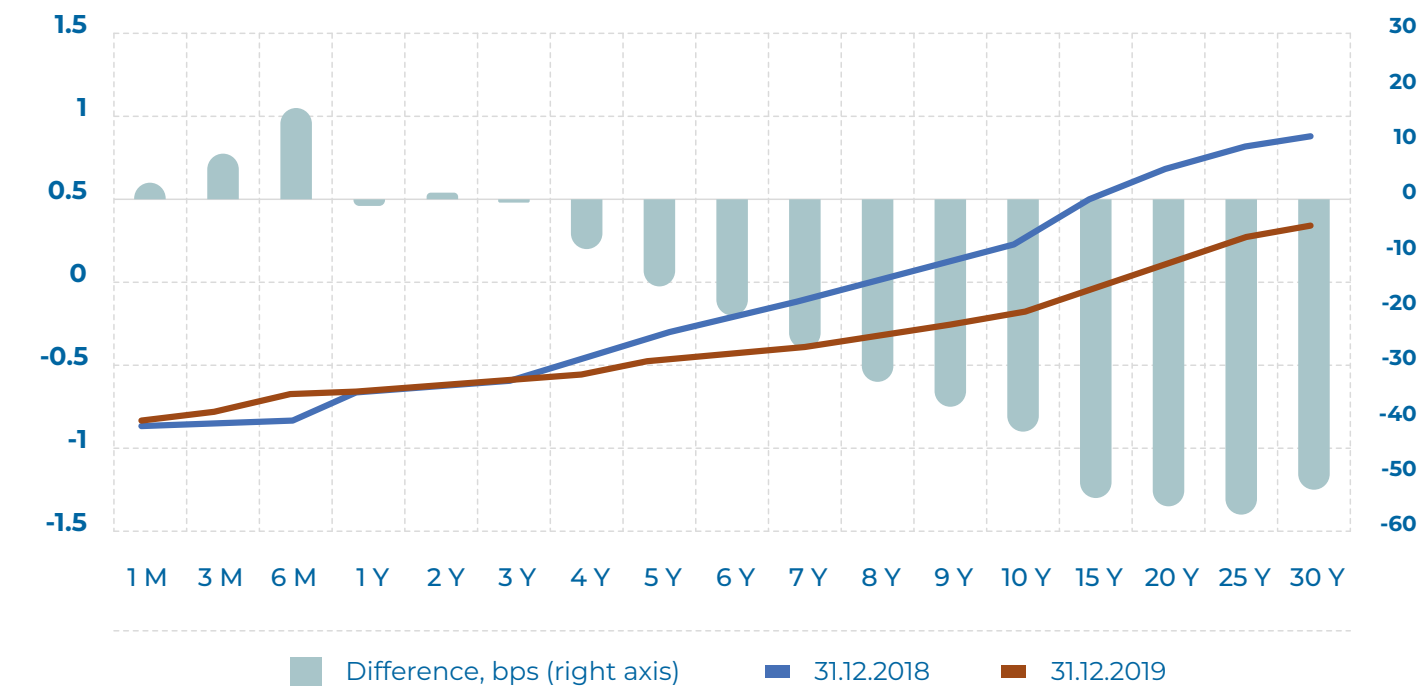
for the region's economies. A flight to quality saw the 10-year Bund hit historical lows at around -71 bps in August. These developments led to ECB cutting policy rate 10 bps from already low levels, introducing a tiering system and restarting its QE program. In 2019, the German sovereign yield curve flattened as short tenors up to 6 months saw yields increase while the longer end of the curve dropped 10 to 55.

On top of slightly stimulating the Eurozone economies, dovish stance by ECB has also led to compression of cross-country spreads in the region, especially for periphery countries with 10-year Italy's and Portugal's government spreads against German Bunds tightening almost 1%. From September onward, reduced political risks in Italy also contributed to the country's lower borrowing costs.

In the UK, while the policy rate was steady at 0.75%, the sovereign yield curve was volatile due to fears of a hard Brexit and ongoing US-China trade war. The Parliament's rejection of Theresa May's plans multiple times and her successor, Boris Johnson's, hardline stance on critical

issues during negotiations with the EU pushed investors towards the safe haven Gilt market, lowering 10-year gilt yields to 0.45% in September and deepening inversion of the curve. Later on, decisive victory of the Conservative party in the December's parliamentary elections and therefore reduced uncertainty regarding the future of the country improved the risk sentiment in the financial markets pushing gilt yields higher towards the end of 2019. 10-year sovereign yield stabilized around 0.75%.

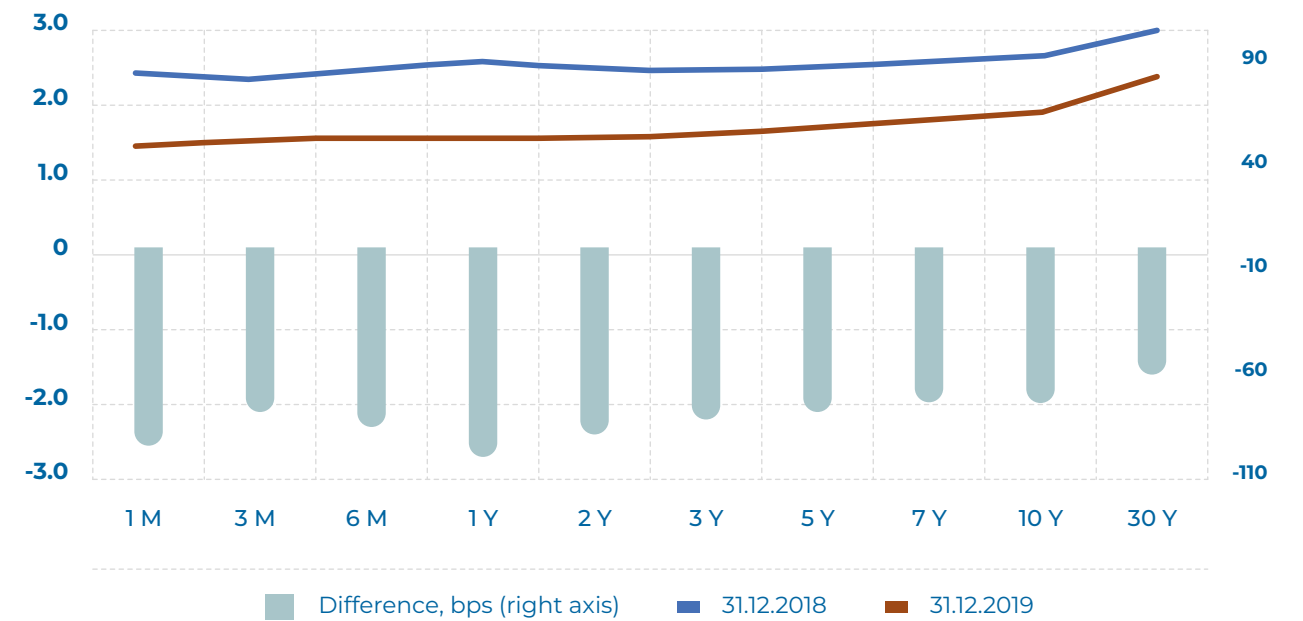
Chart 5.2.5. Germany sovereign yield curve (percentages)



Source: Bloomberg

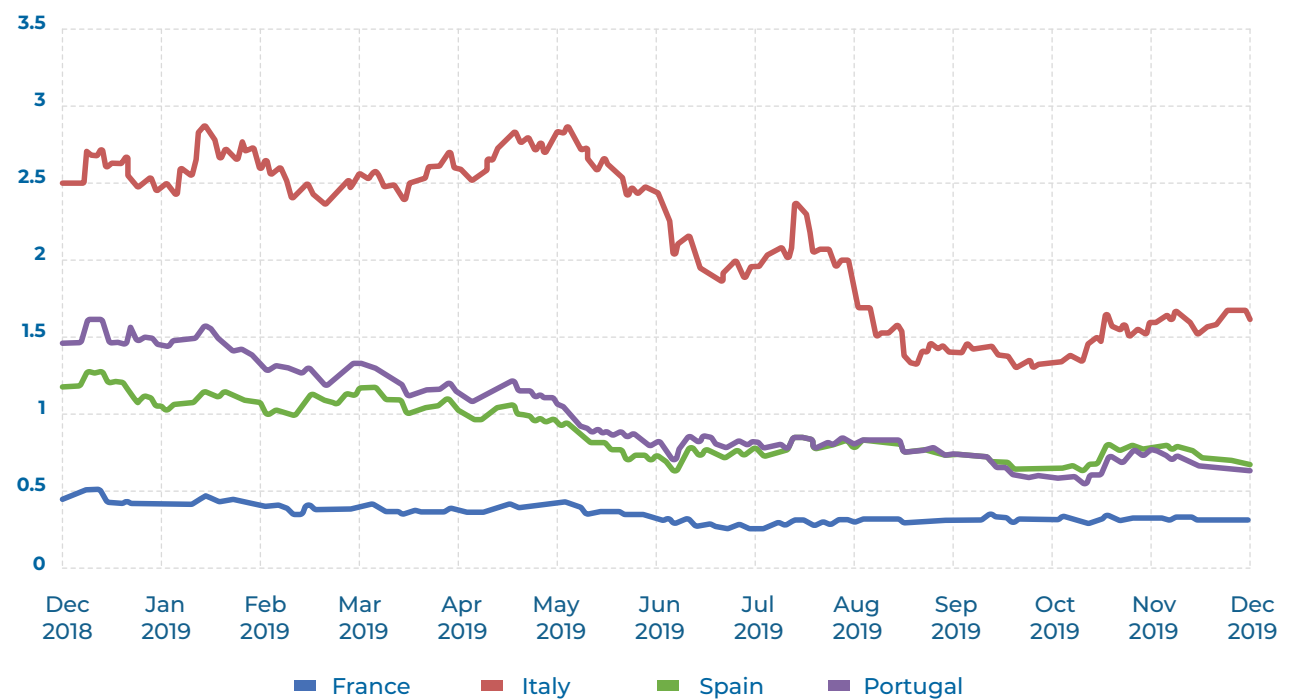
INVESTMENTS

Chart 5.2.6. US sovereign yield curve (percentages)



Source: Bloomberg

Chart 5.2.7. 10 years yield spreads against Germany governments bonds (percentages)



Source: Bloomberg

Foreign Exchange Markets

During 2019 volatility reached record lows in the FX market in a context characterised by political uncertainty on account of Brexit, by the rise of protectionism and by the cyclical slowdown of the global economy. Due to the strong domestic growth and the Fed Fund rates still holding on high relative to the policy rates of other leading central banks, the US dollar appreciated further in 2019, becoming even more overvalued. The weakening of the US dollar in the final weeks of 2019 was mainly due to the declined levels of risk aversion boosted by prospect the US and China were about to sign off on a trade deal.

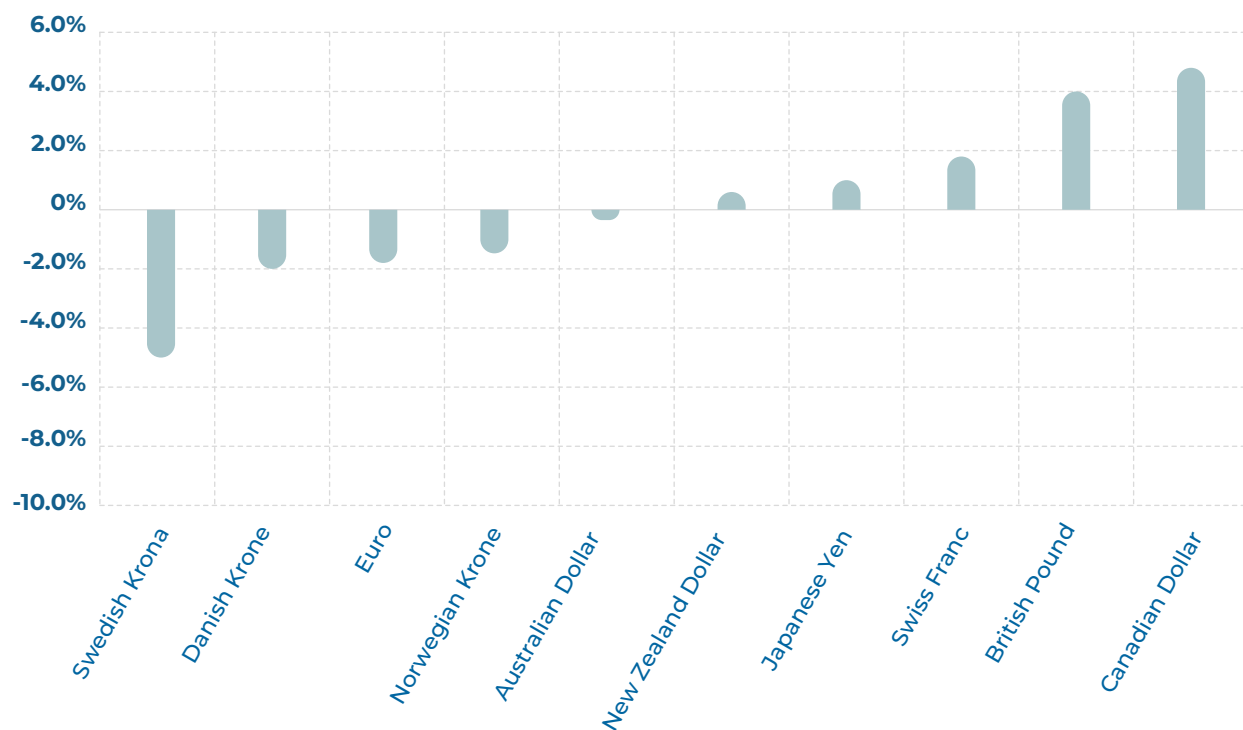
Euro declined by 2% against US dollar, and finished the year at 1.12. Slowdown in the economic growth together with weak inflation and the European Central Bank's very accommodating monetary policy were among factors affecting the decline in EUR/USD pair.

British pound appreciated steadily over the second half of the year, mostly due to the lesser uncertainties surrounding Brexit. The Conservative Party's significant majority in the general elections meant that the United Kingdom was set to exit European Union on January 31, 2020.

Chinese Yuan's appreciation at the end of the year was driven by the news that a "Phase One" was soon to be signed. The appreciation also was due to the improvement of economic data including growth in retail sales and recovery in business confidence.

Although Turkish economy continued to show some signs of recovery, Turkish lira depreciated by 10% against the US dollar with the rising tensions in the Middle East and higher oil prices.

Chart 5.2.8. G10 Currency performance in 2019 against USD



Source: Bloomberg

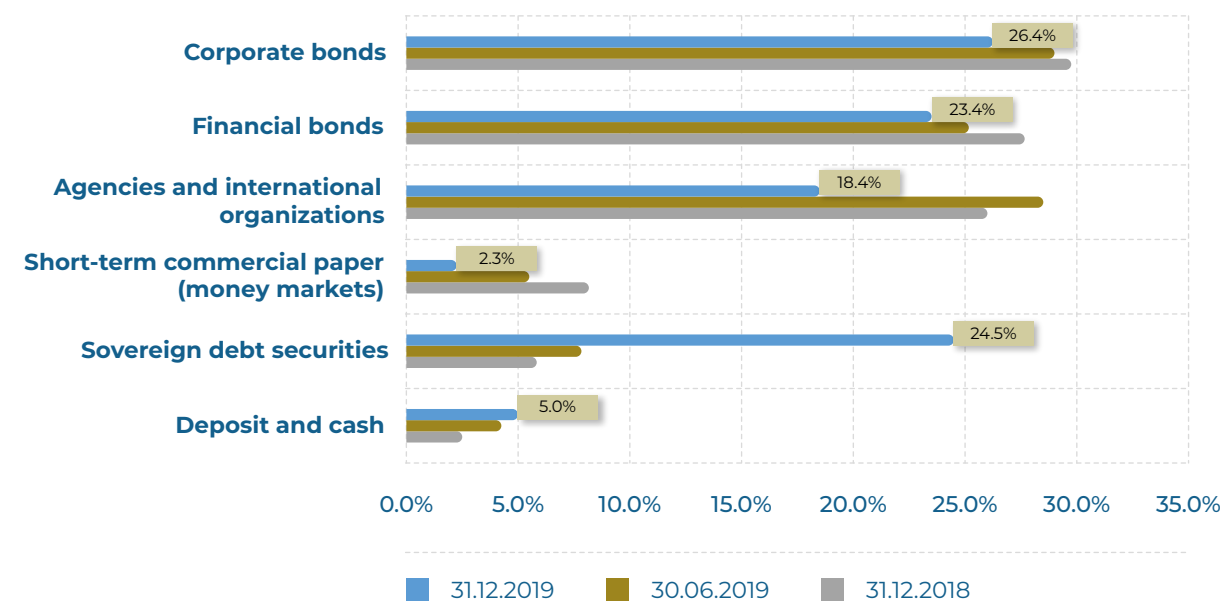
Fixed Income Investments

In 2019, SOFAZ's exposure to corporate bonds, fixed income securities of agencies and international organizations, as well as short-term commercial papers was substantially decreased, which was mainly compensated by investments in sovereign debt securities. SOFAZ has continued to implement the strategy of relocating funds to securities offering higher rating and lower risk. The share of sovereign debt securities rose by 18.6%,

compared to the previous year. The share of agencies and international organizations was decreased to 18.4% from 26.1% the last year. Moreover, the holding of corporate and financial bonds was reduced to 26.4% and 23.4% respectively. Exposure to the short-term commercial papers was decreased due to lower money market yields and limited opportunities.

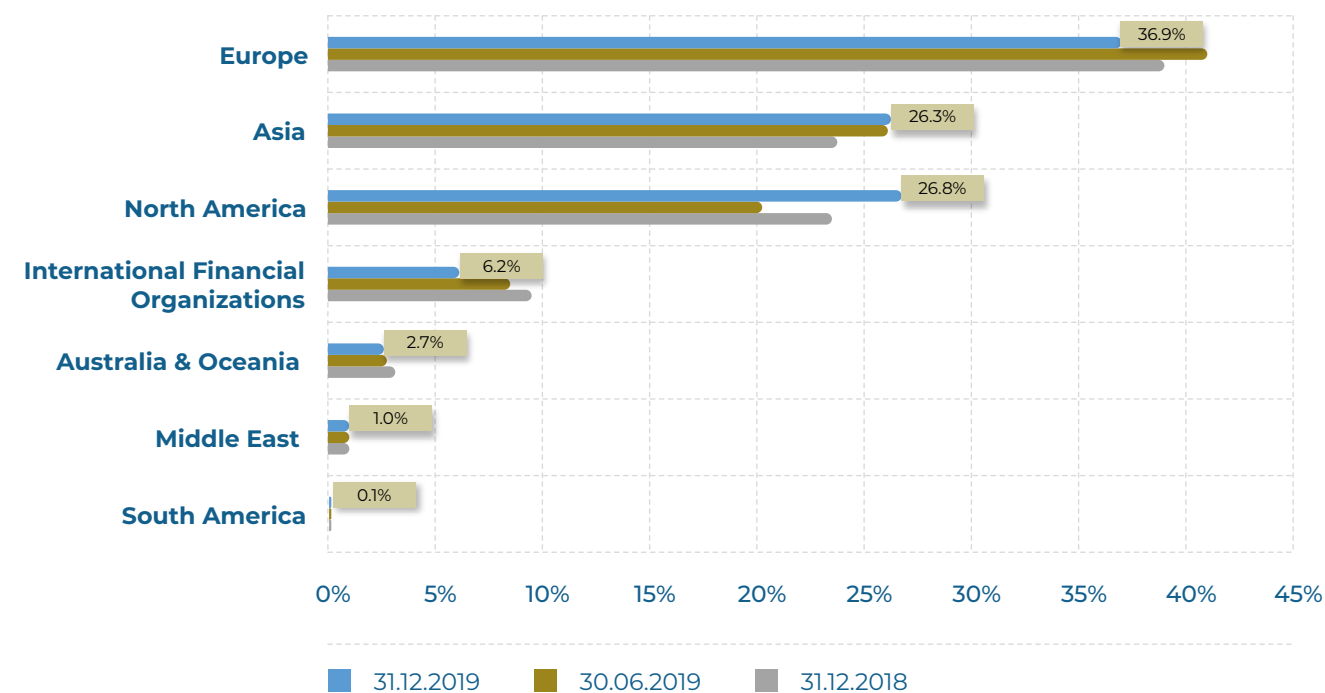
INVESTMENTS

Chart 5.2.9. Breakdown of fixed income portfolio by product types



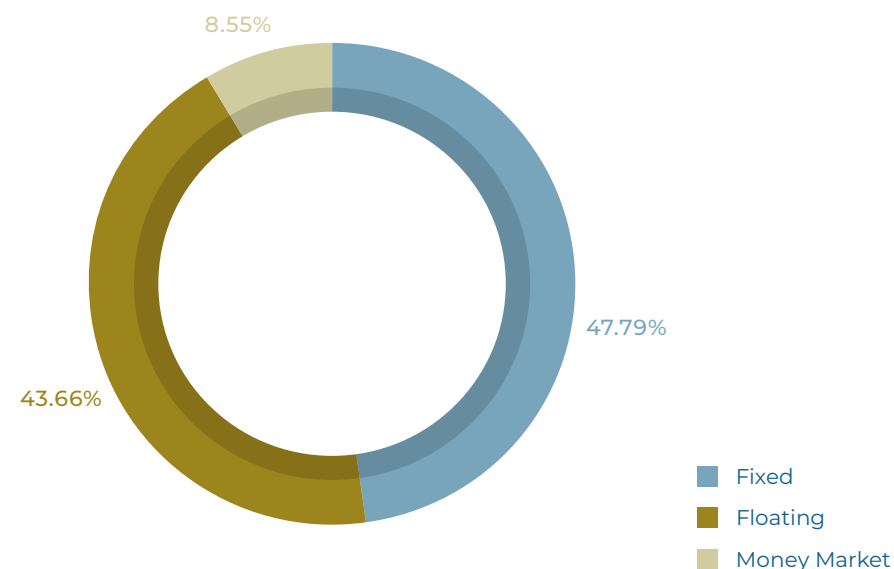
SOFAZ continued the strategy of geographical diversification of fixed income portfolio in 2019. SOFAZ underweighted its exposure to Europe (36.9%) and slightly overweighed its exposure to North America and Asia to 26.8% and 26.3%, respectively. On the other hand, SOFAZ reduced its exposure to International Financial Organizations to 6.2%. There was no material percentage change in holdings in other regions.

Chart 5.2.10. Breakdown of fixed income portfolio by geographical distribution



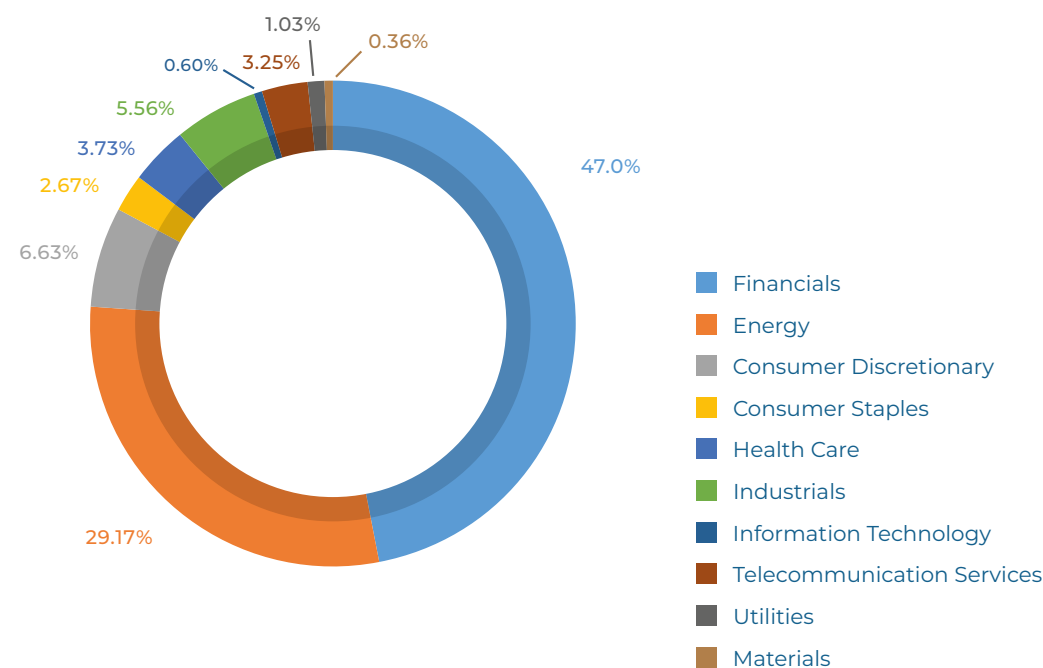
There was a significant change in the breakdown of the fixed income portfolio by security type in 2019. While there was no material change in the portion of money market securities, the holdings of fixed rate notes were increased from 32.54% to 47.79% and the holdings of floating rate notes were significantly decreased from 57% to 43.66%. The increase of fixed securities was due to rising economic risks. The aim of the strategy was to benefit from the potential rate cuts. The duration in the overall fixed income portfolio was increased throughout the year, for the purpose of protecting overall portfolio from potential macroeconomic risks.

Chart 5.2.11. Breakdown of fixed income portfolio by security type



Additionally, SOFAZ's fixed income portfolio is well diversified across different industry sectors. The sectors receiving highest allocations during the reporting year were financials, energy, consumer discretionary and industrials.

Chart 5.2.12. Breakdown of fixed income portfolio by sectors



INVESTMENTS

EQUITY INVESTMENTS

Public equity market review

Global stock markets have posted their best year since the financial crisis, supported by increasingly accommodative central banks and easing China-US trade tensions. The MSCI World Index, which captures stocks across the developed countries, soared 25% during 2019, producing the strongest performance since 2009. The broad European gauge Euro STOXX 600 recorded 23% gain, while S&P 500 climbed 29% posting its best annual performance since 2013.

US equities started the year with strong gains in Q1, recovering from weakness at the end of 2018, as the FED confirmed a pause in interest rate hikes to compensate for deteriorating economic momentum. Despite the sharp market sell-off in May caused by comments from President Trump that his administration could impose tariffs on Mexican imports, and extend the suite of goods that are taxed on import from China, US shares ended Q2 with 17% gain. US equities continued upward trend in gains in the second half of the year as the FED cut rates 3 times by 25 basis points and trade uncertainty faded with the trade deal announcement, that US tariffs imposed on USD 120 billion Chinese goods will be reduced by half and that China has also agreed to increase purchases of US goods.

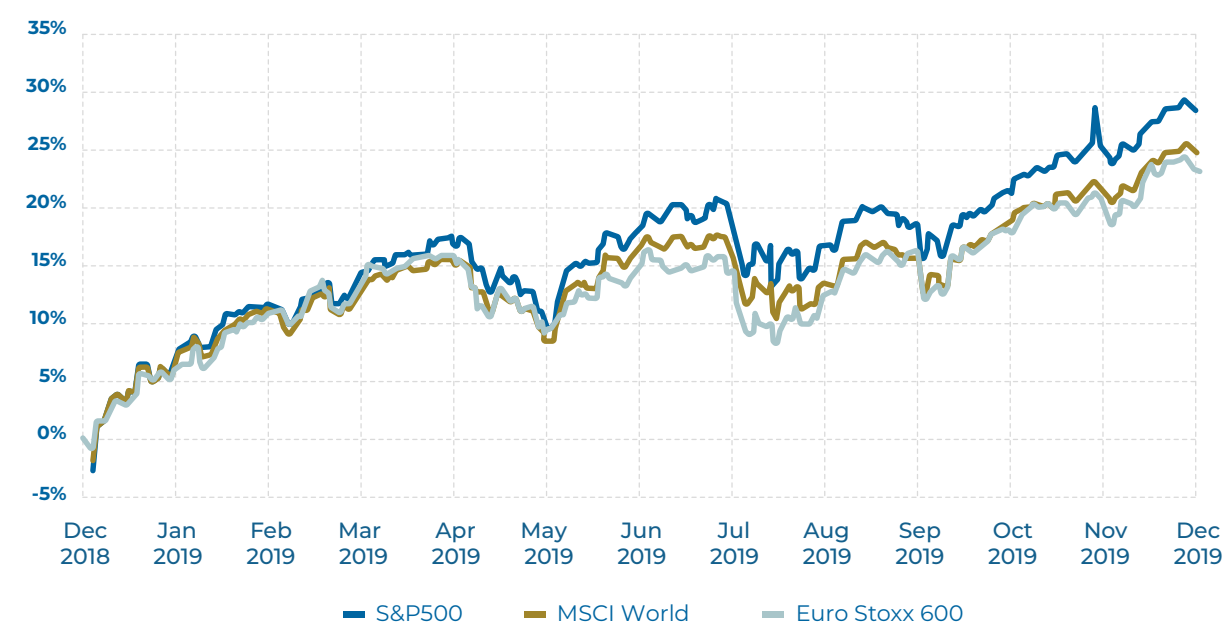
Eurozone equities rebounded from a weak end of 2018,

posting significant gains at the beginning of 2019. Stock markets were supported by central banks stepping away from tighter monetary policy as European Central Bank commented on keeping rates at current levels at least until the end of the year. Eurozone monetary policy has become even more expansionary towards the end of the year, with rate cut in September to an all-time low of -0.5% in a bid to stimulate the flagging Eurozone economy and quantitative easing resuming in November - buying up Eurozone government bonds at a rate of Euro 20 billion. The euro weakened relative to the U.S. dollar to provide support for European exporters.

Populist political pressures remained elevated in Europe throughout the year: Italian politics was in focus with formation of a new coalition with the Democratic Party, which is expected to be less confrontational over EU budget rules; anti-reform strikes continued in France; elections in Spain which was the fourth election in the last four years failed to produce a majority government. Boris Johnson secured his position as UK prime minister on a promise to "get Brexit done". Despite an accumulation of risks at both political and macroeconomic levels that persisted throughout the year European equity market brushed off the risks with Stoxx Europe 600 hitting an all-time high at 419.74 in December.

In terms of sector performance, more cyclical areas of the market, i.e. those that are most sensitive to the

Chart 5.2.13. Index performance



Source: Bloomberg

economic cycle, generally performed strongly. The best performing sector of MSCI was technology, which was up over 40%. All the other outperforming sectors such as financials, communications and industrials were roughly in line with broader market with over 20% gain. Despite the crude oil price increase, investors continued to avoid energy equities which resulted in energy sector being the biggest laggard within the global index.

SOFAZ'S EQUITY PORTFOLIO

By the end of 2019, public equity portfolio increased to 10.96% of total AUM of SOFAZ, compared to 9.57% in 2018. Throughout the year, public equity investments gained 28.47% in local terms (28.89% in USD terms). SOFAZ mitigates portfolio volatility by investing the largest proportion of the equity portfolio into the well-diversified MSCI World index. The return of the portfolio tracking MSCI World accounted for 27.88% local return (28.08% in USD terms) in 2019. SOFAZ's internally managed portfolio which is benchmarked to the S&P 100 index generated the positive return of 31.85% throughout the year. SOFAZ continues to hold an equity stake in VTB bank, a state controlled Russian bank. In 2019, its local currency denominated return equaled 39.01% (55.47% in USD terms). The gain of the portfolio tracking MSCI Europe ex-UK index was 28.02% in EUR and 25.17% in USD terms in 2019.

PRIVATE EQUITY

PRIVATE EQUITY MARKET REVIEW 2019

2019 was one of the biggest ever in terms of the private equity fund-raising. Investors injected USD 894 billion into private capital, which includes private equity, real estate, natural resources and infrastructure. Last year buyout asset class alone raised USD 361 billion, the highest amount in history. In order to meet high demand from investors buyout firms continued to expand their offerings. Number of years between funds has decreased, funds have started raising successor funds faster. LPs has started consolidating their positions and wrote larger checks to a smaller number of fund, therefore, larger capital flowed to fewer firms. Investors have preference larger buyout firms with a strong track records, differentiated strategy and a clear value-creation method. In 2019 fund-raising for North American and multiregional funds was exceptionally strong. Despite the strong pace of investments through the couple of years, private equity dry powder, or uncalled capital, has been on the rise hitting a record high of USD 2.5 trillion in 2019 across all fund types. Dry powder for buyout alone was USD 830 billion with more than half of it sitting in North America.

SOFAZ'S PRIVATE EQUITY PORTFOLIO

During 2019, SOFAZ has committed to five (four of them are new) private equity funds. Below are short descriptions of the mentioned investments:

- “Dyal Capital Partners IV” is a USD 7.2 billion fund managed by Dyal Capital Partners. The fund aims to primarily acquire minority equity interests in investment companies. SOFAZ has committed USD 25 million to the fund.
- “Cinven Fund VII” is a EUR 8 billion fund managed by Cinven. The fund aims to invest in companies with operations in European countries. SOFAZ has committed EUR 48 million to the fund.
- “Green Equity Investors VIII” is a USD 10 billion fund managed by Leonard Green & Partners. The fund aims to invest in large and mega-cap buyout investments in North America. SOFAZ has committed USD 50 million to the fund.
- “Brookfield Infrastructure Fund IV” is a USD 20 billion fund managed by Brookfield. The fund aims to invest in infrastructure investments in North America, South America, Europe and Asia-Pacific. SOFAZ has committed USD 50 million to the fund.
- During 2019, SOFAZ has committed USD 100 million to the segregate account manager - “Neuberger Berman” under the Tranche III. The fund aims to invest mainly in small cap buyout funds and co-investments, as well as, private debt funds within the Tranche III mandate.

Note: Fund sizes indicated above are target sizes at the time of SOFAZ's commitments and actual sizes may differ from these with some funds still raising capital in the market.

INVESTMENTS

Table 5.2.1. SOFAZ's PE investments in previous years

Funds	Investment year	Base currency	Committed amount, million
"ALAC Fund"	2010	USD	100
"Global Infrastructure Fund"	2013	USD	200
"The Catalyst Fund"	2013	USD	50
"NB Caspian Fund"	2016	USD	200
"EBRD EPF"	2016	EUR	100
"Carlyle Partners VII"	2017	USD	50
"Blackstone Core Equity Partners"	2017	USD	50
"BC European Partnes X"	2017	EUR	56
"Apollo Fund IX"	2017	USD	85
"FSI Mid-market Growth Fund"	2017	EUR	20
"Carlyle Europe V"	2018	EUR	50
"Warburg Pincus Global Growth"	2018	USD	50
"Vista Equity Partners VII"	2018	USD	40
"Thoma Bravo XIII"	2018	USD	25
"Baring Private Equity Asia VII"	2018	USD	50
"PAG Asia III"	2018	USD	30

Note: The table does not include SOFAZ's investment into AZRIGS.

Chart 5.2.14. Breakdown of private equity funds by regions

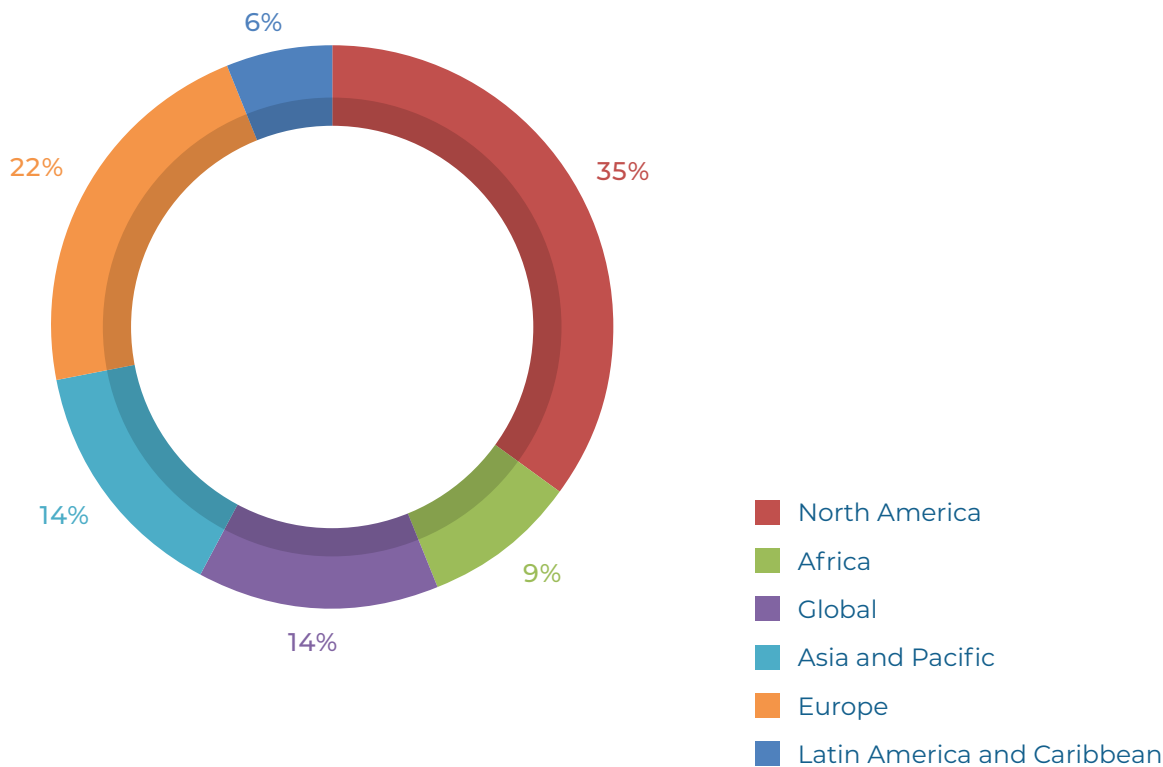
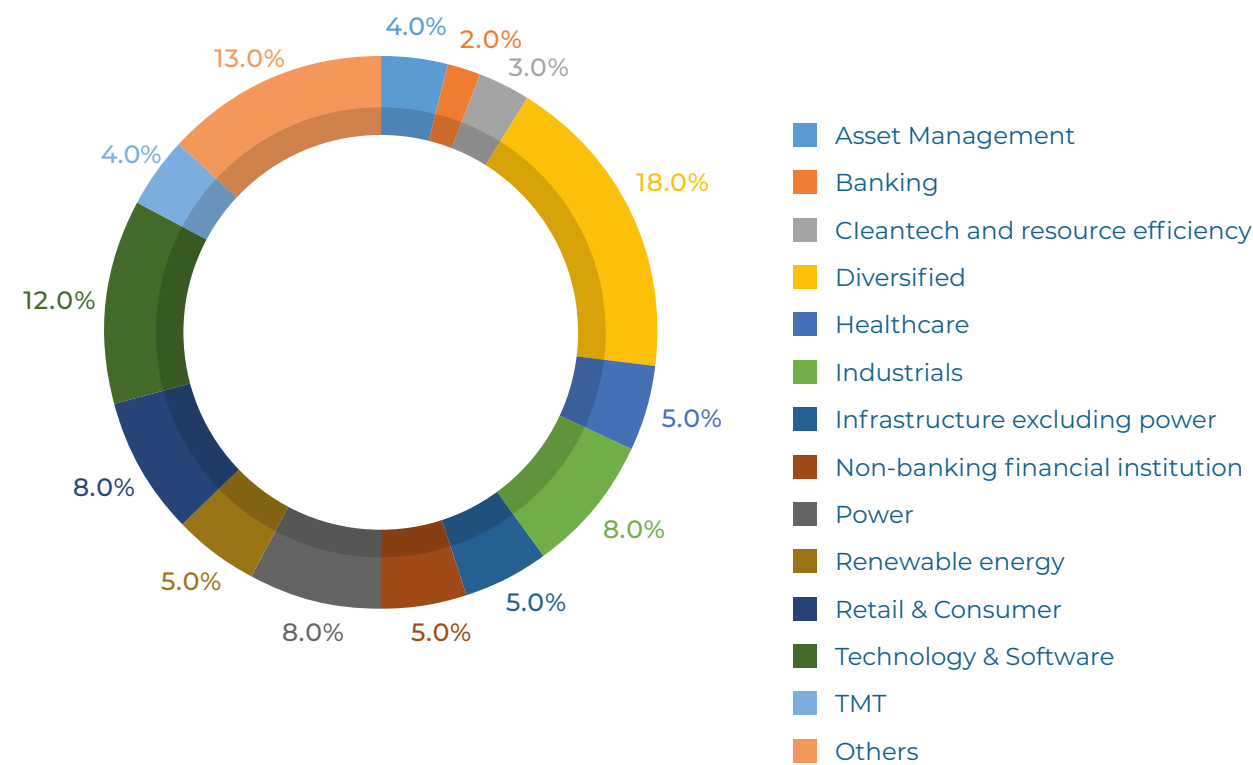


Chart 5.2.15. Breakdown of private equity funds by sectors



Note: Pie-charts 5.2.14. and 5.2.15. do not include SOFAZ's investment into AZRIGS.

INVESTMENT TO THE NEW, SEMI-SUBMERSIBLE DRILLING RIG

Up to 2018, shareholders fully invested USD 1 004.7 million (AZN 1 075.0 million using exchange rates at the time of payments) in the charter capital of the Azerbaijan Rigs LLC, formed with the participation of SOFAZ (90%, USD 904.2 million) and SOCAR (10%, USD 100.5 million). The maximum budget limit of the project was USD 1 116.7 million. Payments to the contractors were fulfilled by periodic capital contributions from SOFAZ and SOCAR. According to the Engineering Procurement and Construction Contract dated June 24, 2013, Caspian Drilling Company LLC was a project contractor, which was founded by SOCAR and is the owner of existing drilling rigs in the Caspian Sea. The inauguration of “Heydar Aliyev” Semi-submersible Drilling Rig took place on May 18, 2017 with the participation of the President of the Republic of Azerbaijan. During 2018 Azerbaijan Rigs continued to establish inventory stock needed for the operations of the rig, which was delivered to the owner on December 26, 2018.

On May 17, 2019, according to the decision of the founders, Azerbaijan Rigs LLC distributed its retained earnings in the amount of AZN 21.2 million to the founders, in the form of dividends, proportionate to their shares including the distribution to SOFAZ in the amount of USD 11.2 million. Caspian Drilling Company LLC (CDC) has leased the facility on the basis of the freight agreement of the “Heydar Aliyev” semi-submersible rig, signed between CDC and “Azerbaijan Rigs” LLC on February 11, 2019. Until the end of 2019, the rig was involved in drilling in the Absheron field of the Caspian Sea at the request of Total S.A. Upon successful completion of the Absheron field and without interruption, the rig began drilling on the Shafag-Asiman field at the request of BP Exploration Limited. In 2019, according to the decision of the founders, by reducing the authorized capital of Azerbaijan Rigs LLC, AZN 85 million was paid to the founders, including the distribution of USD 45 million to SOFAZ.

INVESTMENTS

REAL ESTATE

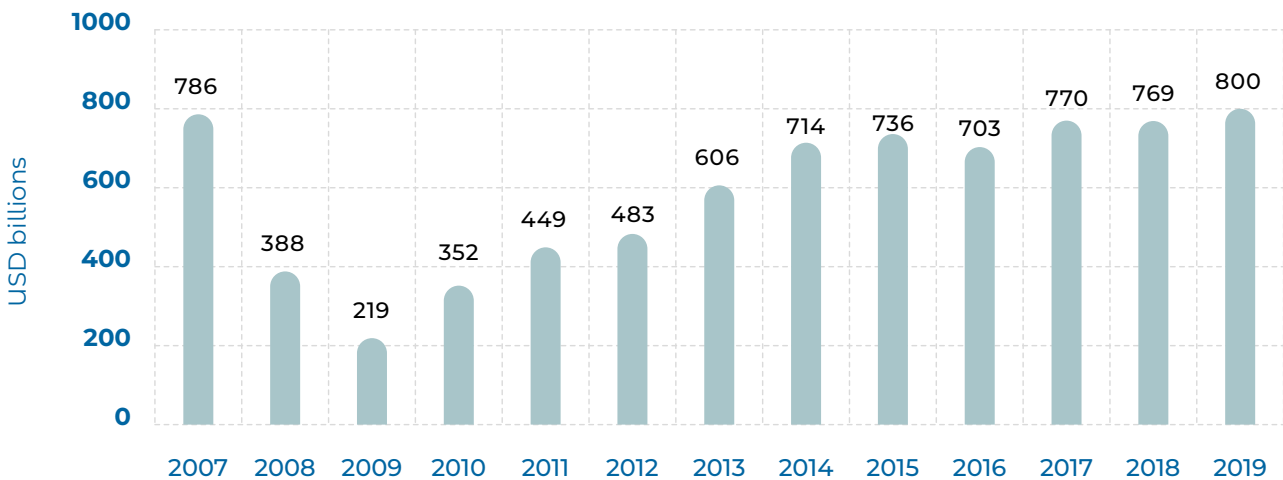
GLOBAL REAL ESTATE MARKET

Global commercial real estate investment reached an all-time high of USD 800 billion in 2019, as investors continued to seek out the solid returns and relative stability of the asset class.

According to JLL, Asia Pacific saw yet another record year with investment in the region rising each year since 2015, reaching a peak of USD 169 billion in 2019. The Americas

also saw growth, underpinned by the U.S. market as volumes rose by 12% to USD 347 billion. On the other hand, investment in EMEA dipped by 5% to USD 284 billion as a result of concentrated weakness in the UK due to Brexit and structural challenges facing the retail sector across the region.

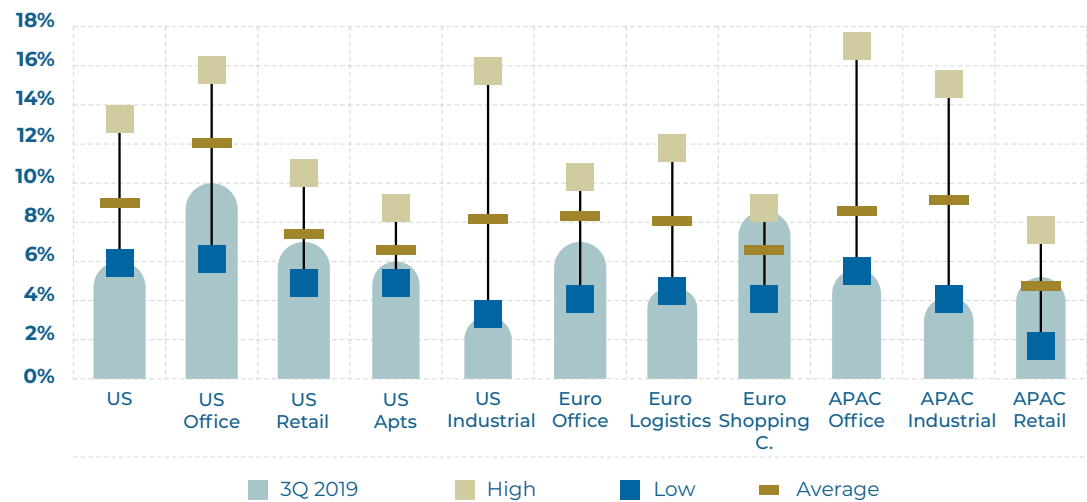
Chart 5.2.16. Global Commercial Real Estate Investment



Source: JLL

Global real estate fundamentals seem to be in good shape, with vacancies at record low levels in most markets across all three regions. Following a period of strong jobs growth and modest development, vacancy across all three regions are near 20-year lows for the industrial and apartment sectors, and below 20-year averages for the office sector. In contrast, higher vacancy in retail reflects the structural headwinds from the growth in e-commerce.

Chart 5.2.17. Vacancy rates



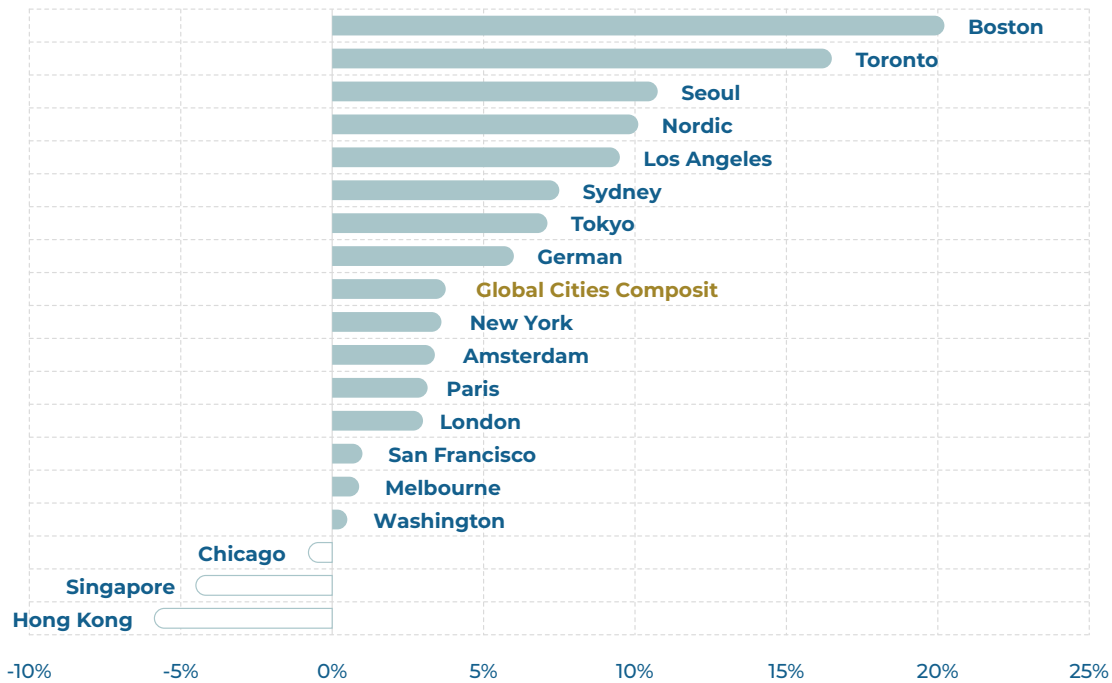
Source: RREEF Management L.L.C.

Note: The long-term average for U.S. vacancy data is 31 years (from Q1 1988 to Q3 2019), European vacancy data is 20 years for office (1999-2018), 10 years for logistics (2009-2018) and 11 years for shopping centers (2008-2018), and Asia Pacific office date is 19 years (from 2000 to Q4 2019).

Global commercial property prices continued to increase in 2019, though growth slowed to the weakest pace recorded since 2010, the latest RCA CPPI Global Cities report shows. The Global Cities Composite rose 3.7% year-over-year in the fourth quarter, down from a 6.7% pace at the start of 2019.

Annual price growth for the North American metros slipped to 5.9% in 2019, and for European metros price gains slowed to 4.3%. Cities in the Asia Pacific region acquired a 0.9% annual gain.

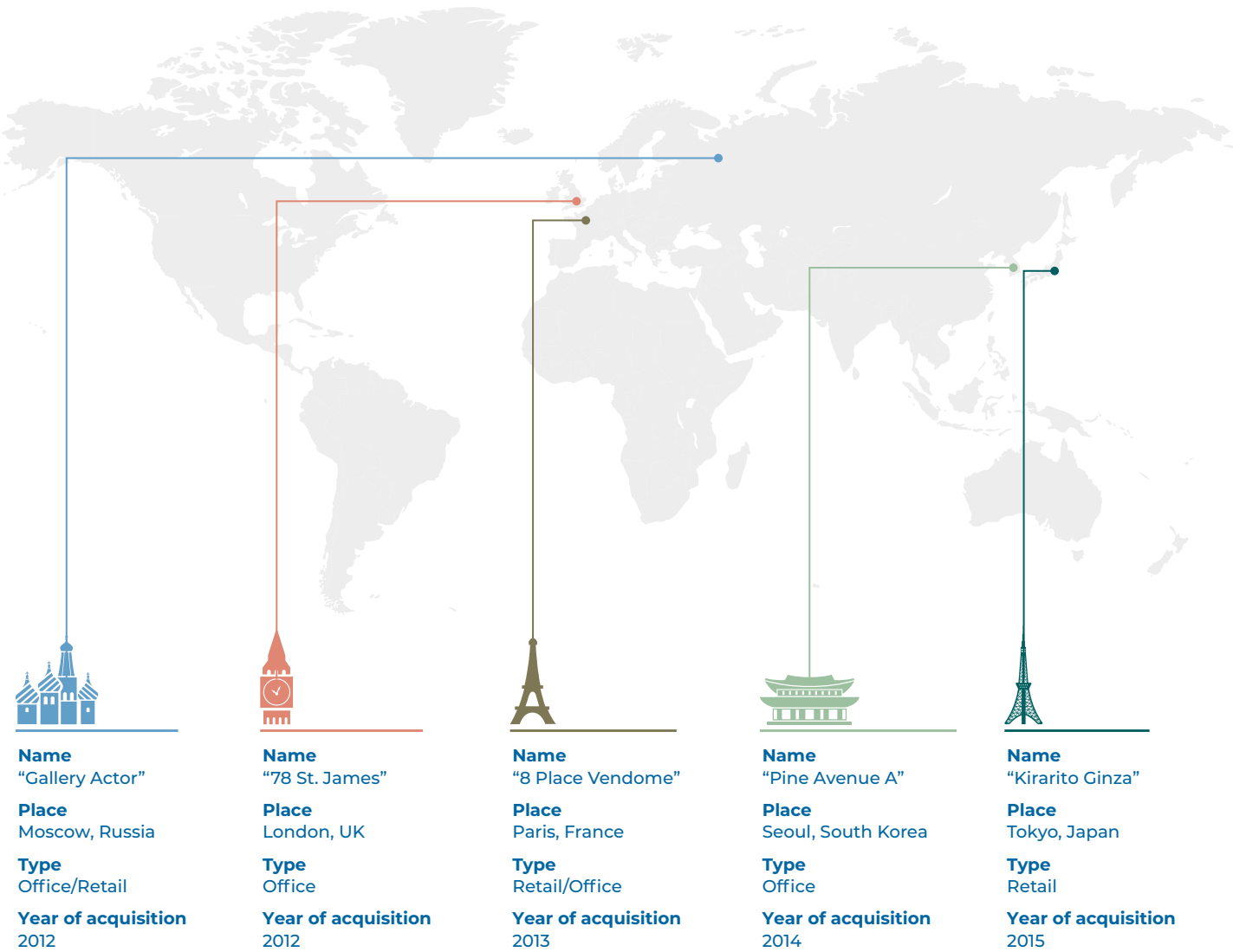
Chart 5.2.18. Annual Price Change of Leading Metros in 2019



Source: RCA CPPI (Commercial Property Price Indices) for office, industrial and retail properties Global Cities Composite Index comprises 18 metro indices.

CURRENT REAL ESTATE PORTFOLIO

DIRECT INVESTMENTS



New Indirect Investments in 2019

Consistent with its real estate strategy of building a diversified risk adjusted portfolio across geographies, real estate types, and investment strategies, SOFAZ made investments to the following private real estate funds in 2019:

- PGIM's "EVP II". The Fund was established in 2018 with the target size of EUR 750 million and makes real estate investment in Western Europe. SOFAZ's commitment in "EVP II" is EUR 100 million as a Limited Partner.
- LFPI's "FLE SICAV-FIS". The Fund was established in

2005 with the target size of EUR 3 billion and makes real estate investment in Europe and U.S. SOFAZ's commitment in "FLE SICAV-FIS" is EUR 100 million as a Limited Partner.

- PAG's "PREP II". The Fund was established in 2018 with size of USD 2 billion and makes real estate investment in Asia-Pacific. SOFAZ's commitment in "PREP II" is USD 50 million as a Limited Partner.
- GAW Capital's "GREF VI". The Fund was established in 2018 with the size of USD 2.2 billion and makes commercial real estate investments in Asia-Pacific. SOFAZ's commitment in "GREF VI" is USD 50 million as a Limited Partner.

- Blackstone’s “BREP VI”. The Fund was established in 2019 with the size of EUR 8.5 billion and makes real estate investment in Europe. SOFAZ’s commitment in “BREP VI” is EUR 150 million as a Limited Partner.
- Blackstone’s “BPP US”. The Fund was established in 2015 with the size of USD 11.4 billion and makes real estate investment in North America. SOFAZ’s commitment in “BPP US” is USD 200 million as a Limited Partner.
- PGIM’s “PRISA”. The Fund was established in 1970 with the size of USD 26 billion and makes real estate investment in North America. SOFAZ’s commitment in “PRISA” is USD 200 million as a Limited Partner.

New Co-investments in 2019

SOFAZ has reached an agreement with Gaw Capital Partner’s “GAW US Fund III” to make co-investment to retail asset located in Los Angeles. SOFAZ’s equity portion in the co-investment is USD 50 million.

Divestment of Palazzo Turati (Milan)

In 2019, SOFAZ sold Palazzo Turati in Milan for EUR 112 million to the Invesco Real Estate Management Sarl. The asset was acquired in 2016. The total gain from this real estate is approximately EUR 26 million including capital gain and rental income since 2016. This brings the total earnings to 7.2% per annum for the holding period.

Annual earnings

As of the year end, the real estate portfolio consisted of five assets located in London, Paris, Moscow, Seoul and Tokyo. During 2019, gross rents mentioned below were collected from the five respective investments:

- London, 78 St James Street, GBP 0;
- Paris, 8 Place Vendome, EUR 5 520 105;
- Moscow, 16 Tverskaya, RUB 315 663 000;
- Seoul, Pine Avenue Tower A, KRW 16 685 550 185;
- Tokyo, Kirarito Ginza, JPY 1 615 251 773.

In the second half of 2018 tenant fully vacated 78 St James’s Street, London by paying surrender fee which is equal to four years of rent. After building fully vacated, redevelopment program started in the asset. As a result of this program, net operating income fell to zero in 2019, associated with the loss of rental income. After completion, 78 St James’s Street will offer 10 220m² of office accommodation, a pavilion extension and rooftop terraces with views across London’s Westminster and Green Park.

All five assets were independently valued at the end of 2019. The valuation results and valuation companies are as below:

- 78 St James Street, JLL, GBP 117 000 000 ;
- 8, Place Vendome, BNP Paribas Real Estate, EUR 188 877 500;
- Tverskaya 16, Cushman & Wakefield, RUB 3 334 200 000;
- Pine Avenue Tower A, Pacific Appraisal Co., Ltd., KRW 557 400 000 000;
- Kirarito Ginza, Daiwa Real Estate Appraisal Co., Ltd, JPY 58 400 000 000.

INVESTMENTS

5.3. SOFAZ’s investment portfolio performance

PERFORMANCE MEASUREMENT METHODOLOGY

Returns on SOFAZ’s assets are calculated in accordance with the “Performance measurement methodology for the investment portfolio and sub-portfolios of the State Oil Fund” approved by the Internal Resolution No.31 dated November 29, 2017. In accordance with this methodology, AZN, USD, and EUR are selected as the base currencies for calculating performance of the investment portfolio with and without taking into account currency exchange fluctuations.

The following figures are based on the performance of investment portfolio measured in local currencies.

SOFAZ RATE OF RETURN IN 2019

The total rate of return on SOFAZ’s investment portfolio was 5.29%. Historical returns for the period of 10 years starting from 2010 and monthly cumulative returns for 2019 are illustrated in Charts 5.3.1 and 5.3.2, respectively.

Chart 5.3.1. Rate of return of SOFAZ’s investment portfolio (in local currency)

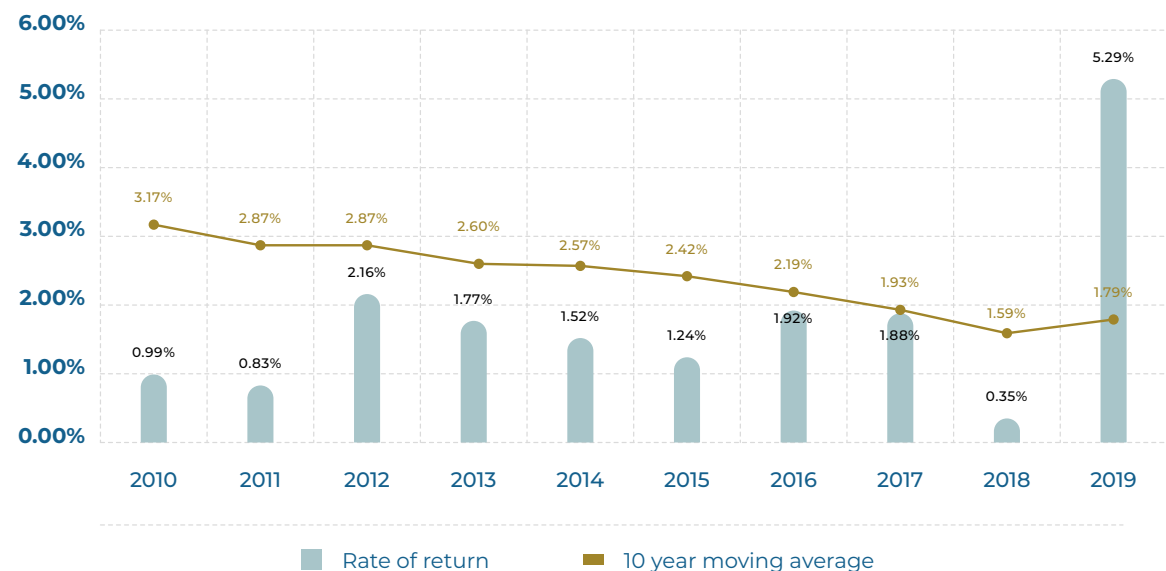
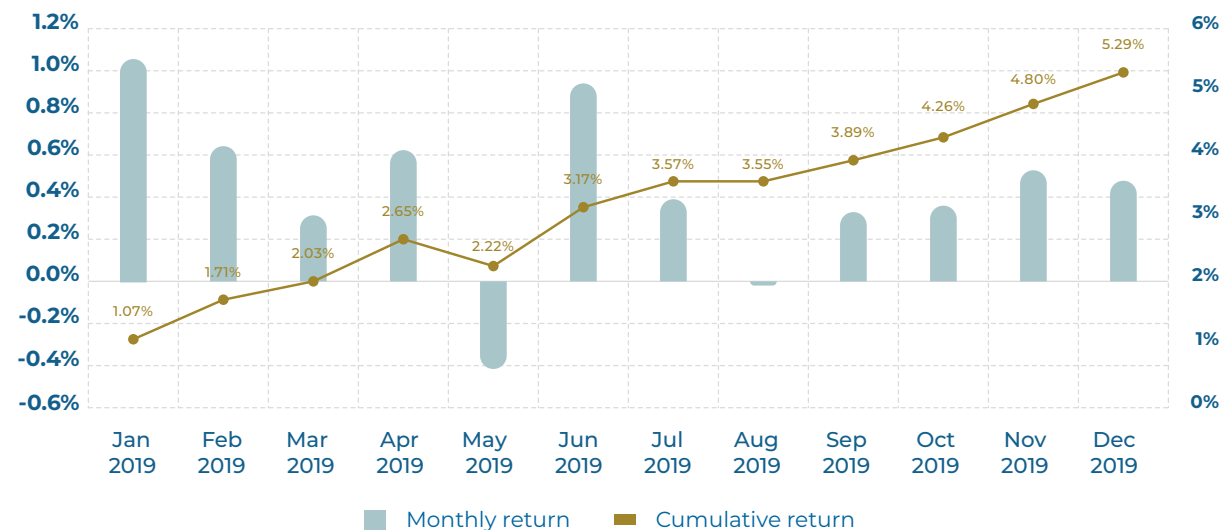
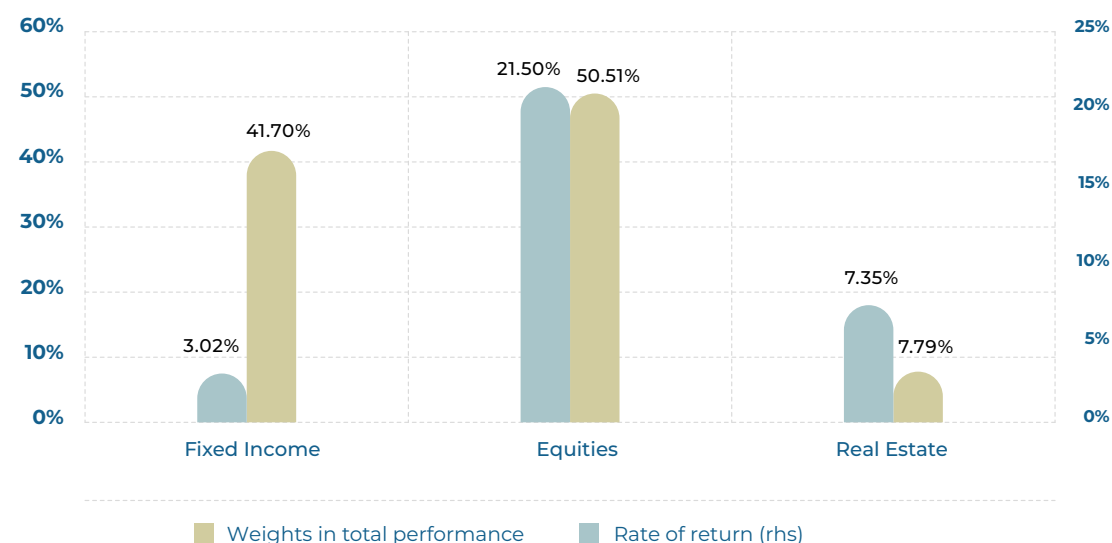


Chart 5.3.2. Cumulative monthly performance (in local currency)



In 2019, annual returns for fixed income, equity (public and private) and real estate investments were 3.02%, 21.50%, and 7.35%, respectively, while their corresponding contributions to the total performance of the investment portfolio (5.29%) accounted for 2.21%, 2.67% and 0.41% (Chart 5.3.3 and Chart 5.3.4).

Chart 5.3.3. Performance of asset classes and weights of their contributions to total performance (5.29%)*



*Performance of the Gold investments is not included into the total performance results because it is treated as FX effect.

Chart 5.3.4. Contribution to total performance by asset class

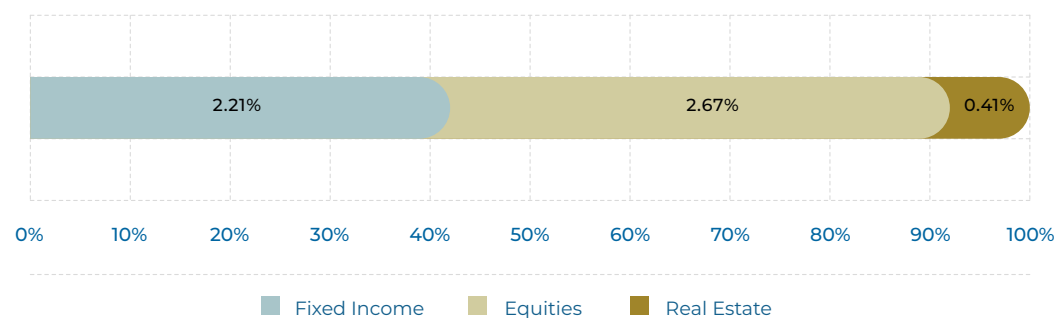
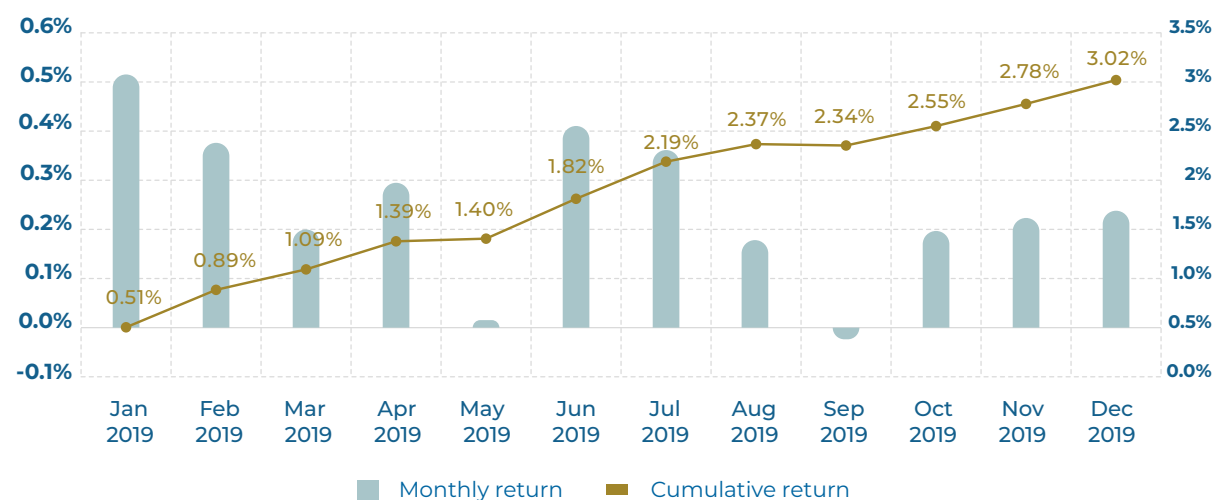


Chart 5.3.5. Cumulative monthly fixed income performance



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Chart 5.3.6. Cumulative monthly equity performance

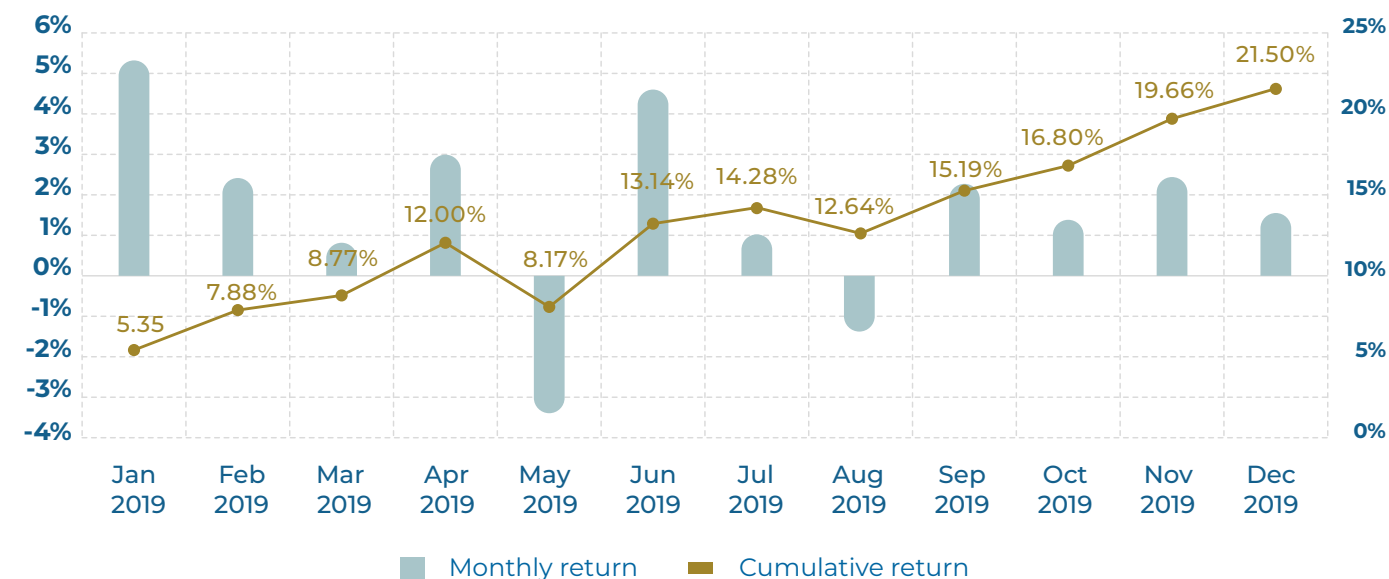
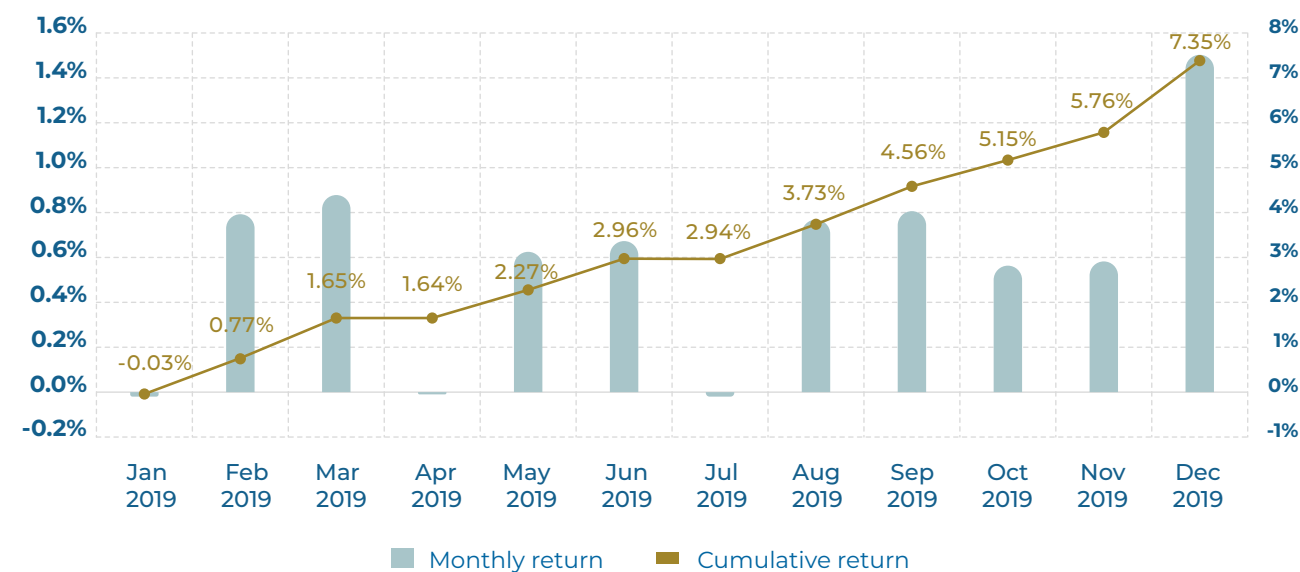


Chart 5.3.7. Cumulative monthly real estate performance



5.4. RISK MANAGEMENT

Risk management and risk monitoring procedures of SOFAZ encompass analysis across risk classes. Market risk and credit risk indicators, as well as other relevant measures, are reported for both internal and external audience. The measures of assessing market risk include duration, Value at Risk, tracking error, scenario analysis, stress tests, etc.

To monitor the risk of divergence of SOFAZ's sub-portfolio returns from their passively tracked benchmarks,

tracking errors are continually observed. Ex-ante tracking error limits for the equity sub-portfolios managed by UBS Global Asset Management (UBS), State Street Global Advisors (SSgA), Mellon Investments Corporation (Mellon), BlackRock Investment Management (BlackRock) and Sumitomo Mitsui Trust International (Sumitomo) are established at the level of 30 bps on an annual basis. As of December 31, 2019, the tracking errors on an annual basis were 14 bps, 12 bps, 8 bps, 11 bps, and 8 bps for the MSCI

World index mandate portfolios managed by UBS, SSgA, Mellon, BlackRock and Sumitomo, respectively, and 19 bps for the MSCI Europe ex UK index mandate portfolio managed by UBS.

For the purpose of internal risk management, Value at Risk (VaR) is a common, well-recognized and valuable measure of total risk. We obtain VaR of the portfolio using Monte Carlo and historical simulations.

As of December 31, 2019, SOFAZ's 20 day horizon 95%

VaR accounted for USD 389 million compared to USD 233 million at the end of the previous year.

The calculation of VaR and contributions to VaR of different sub-portfolios is based on local returns, since the impact of FX fluctuations might considerably skew the results, especially those of the fixed income instruments. However, due to the minor impact of FX fluctuations on the VaR of equities, FX effect is not excluded from the results of the latter.

Chart 5.4.1. Contribution to total VaR by asset classes (ex FX effect)

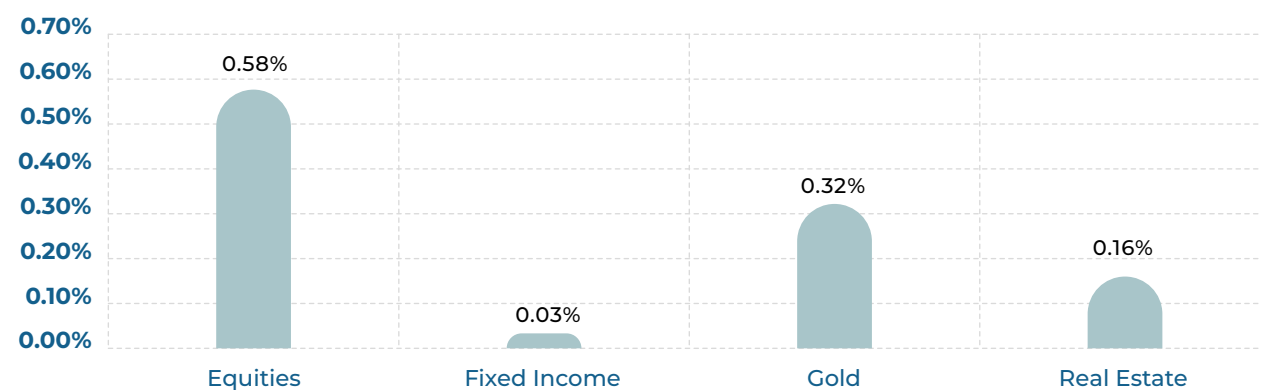
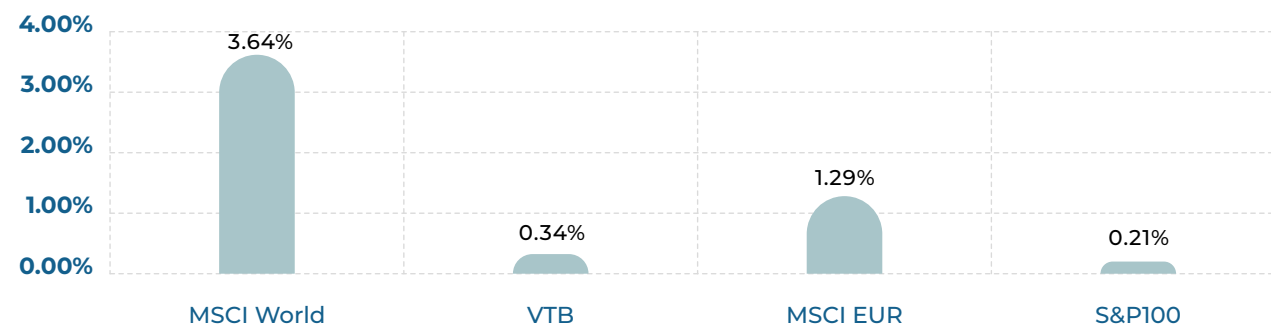
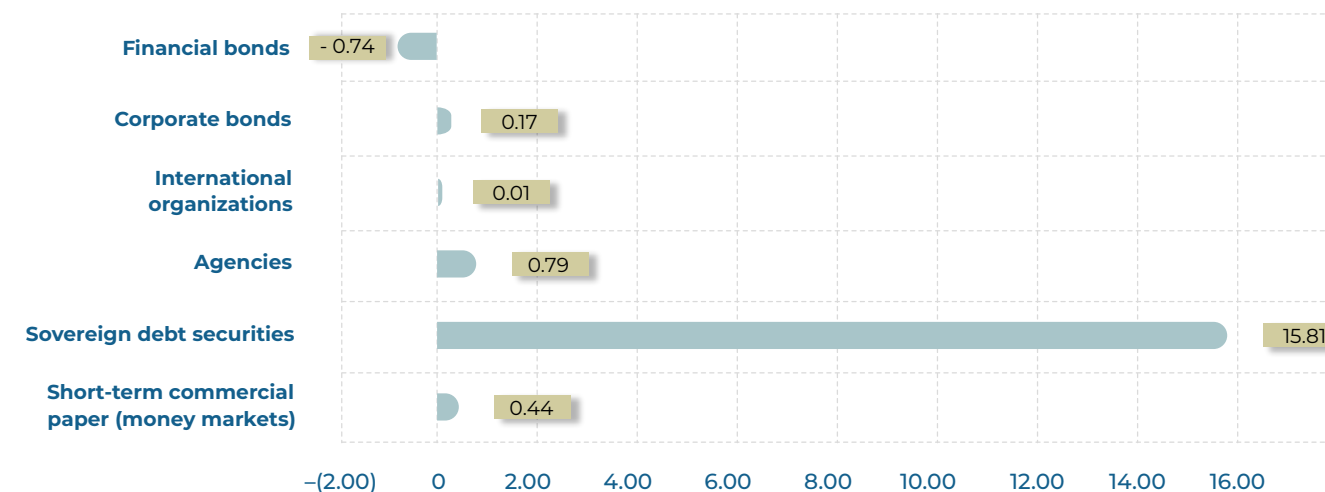


Chart 5.4.2. Contribution to equity VaR



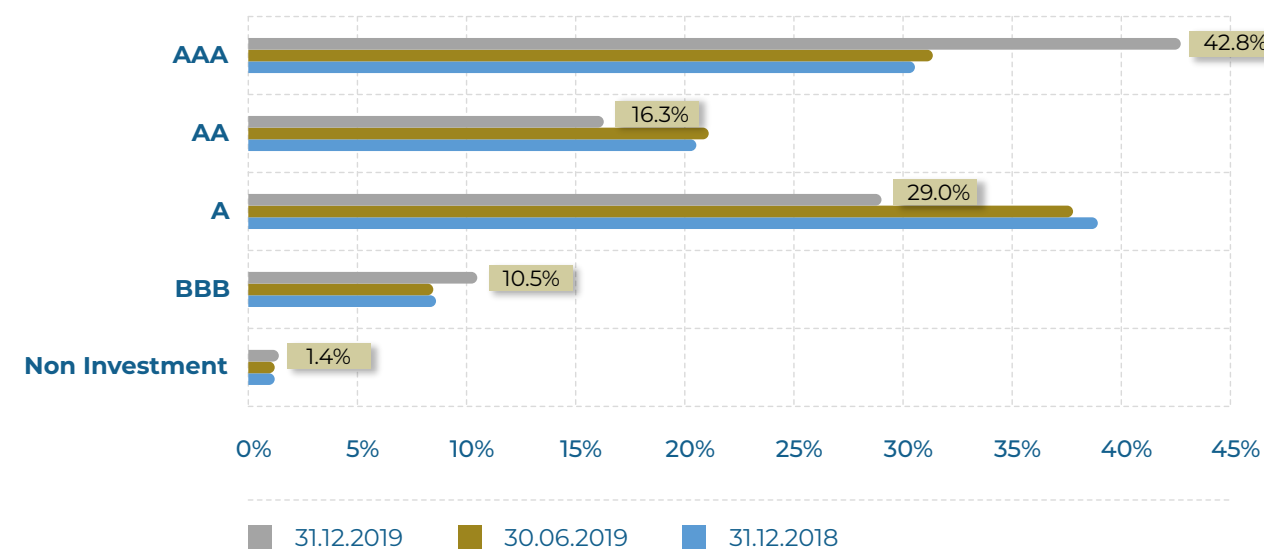
INVESTMENTS

Chart 5.4.3. Contribution to fixed income VaR by product types (ex FX effect, bps)

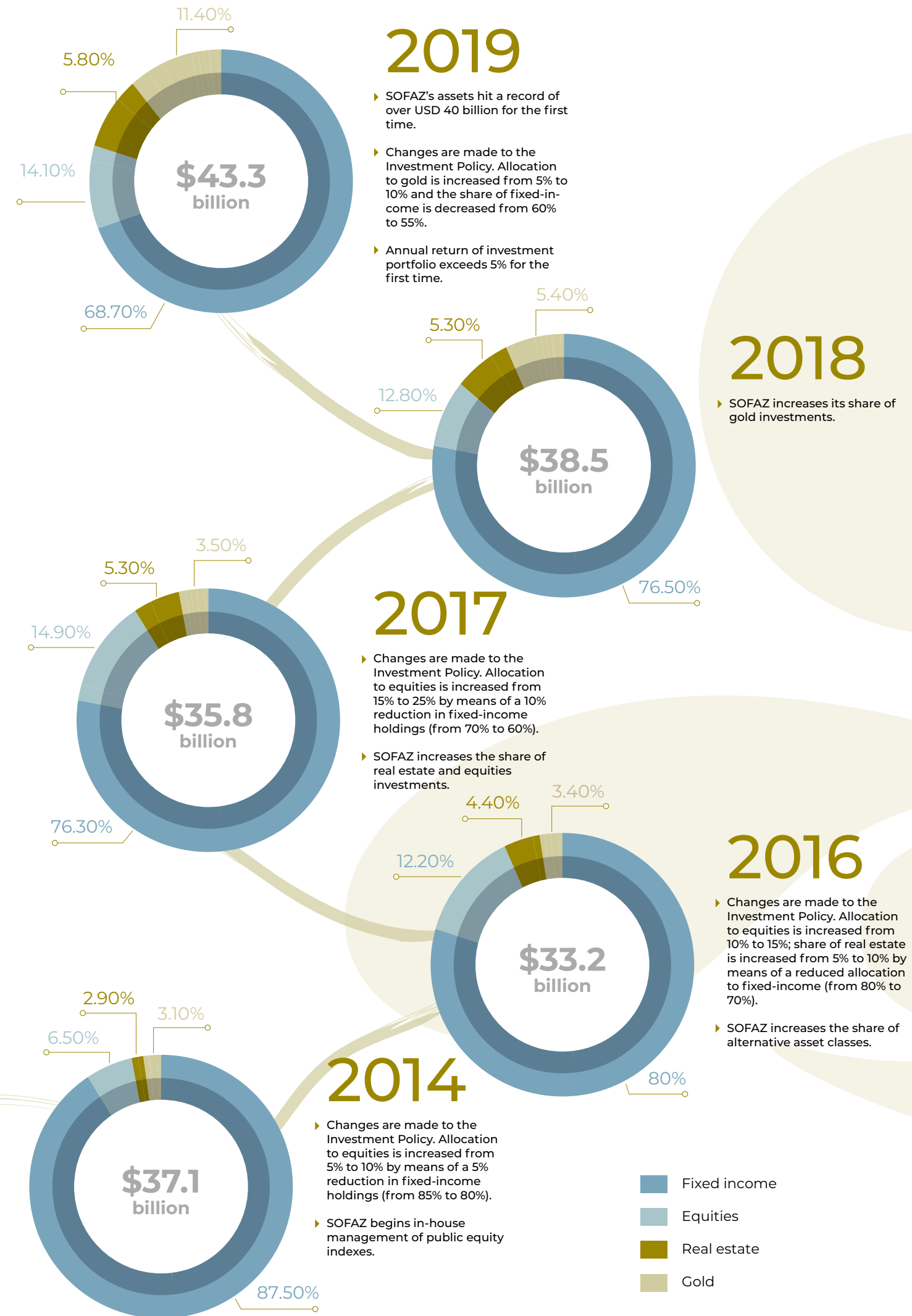
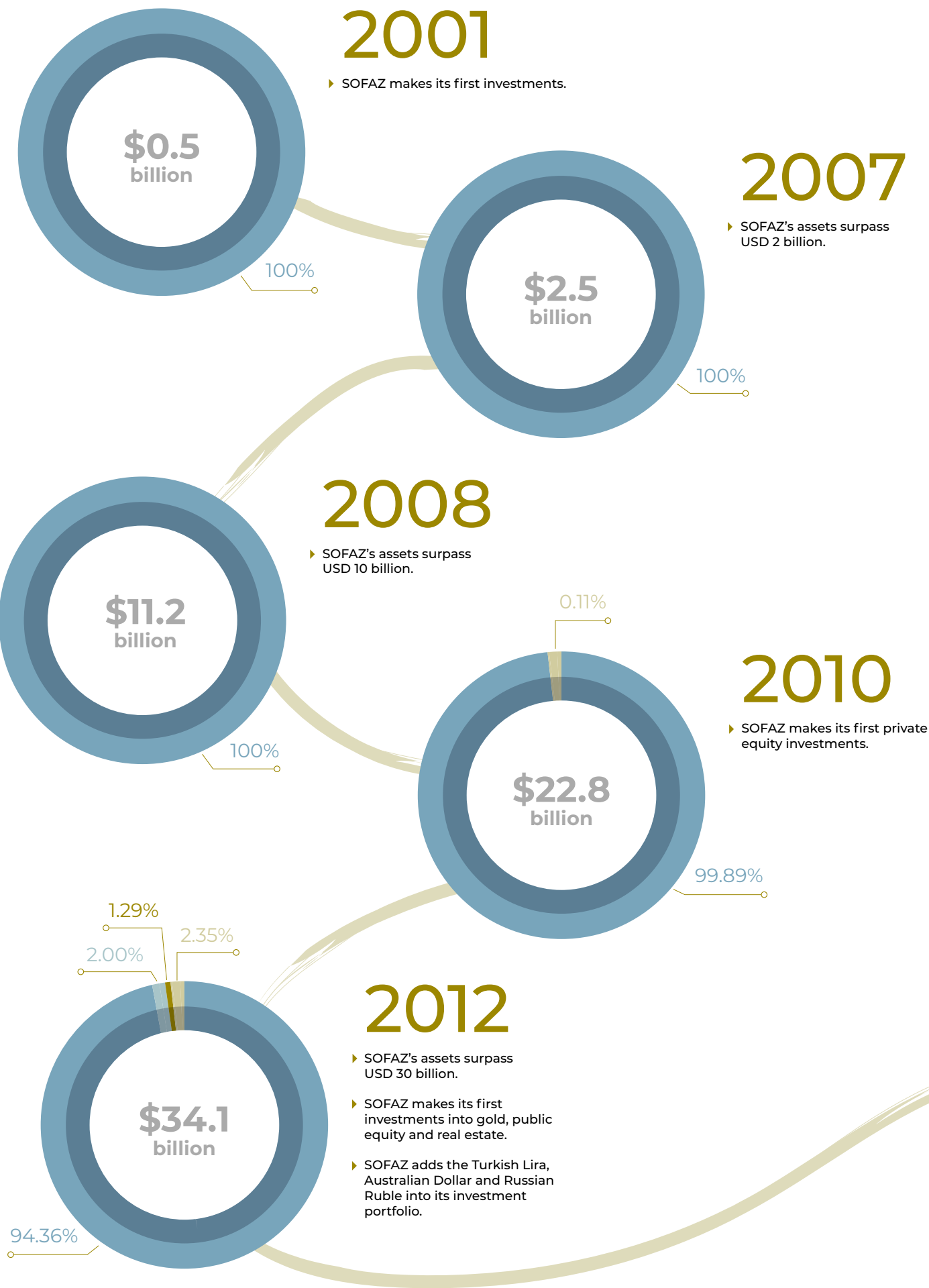


Credit risk management is another crucial part of SOFAZ's risk procedures. SOFAZ's "Investment Guidelines" sets restrictions on the credit ratings of issuers and securities. The Chart 5.4.4 represents the change in the composition of the fixed income portfolio by credit rating from 2018 to 2019.

Chart 5.4.4. Composition of the fixed income portfolio by credit ratings



INVESTMENT ACTIVITIES



6. 2019 SOFAZ'S BUDGET EXECUTION

SOFAZ's budget for 2019 was approved by the Presidential Decree № 449 from December 28, 2018. In 2019, the SOFAZ's budgetary revenues and expenditures were projected to constitute AZN 15 450 149.7 thousand and AZN 11 595 238.4 thousand, respectively. As of January 1, 2019 SOFAZ's assets amounted to AZN 64 905.5 million, or USD 38 515.2 million. Throughout the reference year, SOFAZ's assets have risen by USD 4 808.1 million, or 12.5%, eventually reaching USD 43 323.3 million. At the same time, SOFAZ's assets as expressed in the national currency have grown by AZN 8 173.7 million (12.5 %) and reached AZN 73 079.2 million by the end of the year.

In 2019, SOFAZ's total budget revenues constituted AZN 19 030.6 million, or USD 11 194.5 million, meaning that the sum projected in the budget plan (AZN 15 450.1 million) was executed at the level of 123.2%. The overall revenues as expressed in the US dollars, exceeded the respective figure of 2018 (USD 10 361 million) by 8%. In 2019, the actual budget expenditures equaled AZN 11 588.6 million or USD 6 816.8 million, 99.9% of the projected amount (AZN 11 595.2 million). By the end of 2019, the budget was executed with a profit of AZN 7 442 million, or USD 4 377.7 million, which is AZN 1 283.4 million or approximately 20.8% more than in 2018 (AZN 6 158.5 million). In the reporting period, the budget profit of USD 4 377.7 million recorded was directed to savings.

Revenues. In 2019, the revenues accrued to SOFAZ were formed from the sales of the Republic of Azerbaijan's share of hydrocarbons, fees paid to Azerbaijan for the oil and gas transit through its territory, bonus payments, acreage fees and revenues from the management of SOFAZ's assets.

In 2019, revenues from the sale of profit oil and gas constituted AZN 14 614.7 million, or USD 8 596.9 million. The volume of production at the Azeri-Chirag-Gunashli field constituted 195.1 million barrels, having been executed at the level of 99% relative to the forecasted level of 197.1 million barrels. Since oil prices throughout the reference year were higher than projected, the respective revenue item was executed at the level of 110.56% relative to what had been projected in the budget (AZN 13 218.75 million). That is, the average sale price per barrel of oil constituted USD 64 in 2019 as against USD 60 that was forecasted in the approved budget.

In 2019, in accordance with the agreements between SOCAR (representing the Republic of Azerbaijan) and the buyers on the sales of gas within the framework of the Shah Deniz "Stage 1" project, SOCAR purchased

the natural gas produced in excess over the agreed annual level at the cost of USD 169.9 million, instead of transferring this amount to SOFAZ. Moreover, SOFAZ did not receive the amounts of USD 134.6 million, USD 227.6 million and USD 288.4 million earned from gas sales in 2016, 2017 and 2018 respectively. Thus, within the framework of the Shah Deniz "Stage 1" project the sum of USD 820.4 million was not transferred to SOFAZ in 2016-2019.

Acreage fees paid by the foreign investors working in the hydrocarbons production sector, made up for another source of SOFAZ's revenues in 2019. In accordance with the terms of the agreement concluded between SOCAR and the company jointly owned by SOCAR and BP Exploration Caspian Sea Limited on oil prospecting, exploitation and production sharing at the Shafag-Asiman field situated in the Azerbaijani sector of the Caspian Sea, USD 2.8 million, or AZN 4.7 million of acreage fees were transferred to SOFAZ. This revenue item was executed at 100.0%, compared to the approved budget figure (AZN 4.7 million).

The revenues obtained from the transit of oil and gas through the territory of Azerbaijan (transit fees) in the reference year amounted to USD 11.1 million, or AZN 18.9 million. Compared to the budgetary target of AZN 19 040.0 thousand, the abovementioned item was executed at 99.5%.

In the reporting year, the bonus payments received by SOFAZ constituted AZN 766.4 million, or USD 450.8 million, having been executed at 100.2% compared to the budget plan (AZN 765.2 million).

In the reporting year, the revenues accrued to SOFAZ from the management of its investment portfolio equaled USD 2 132.9 million, or AZN 3 625.9 million. The rate of return on SOFAZ's investment portfolio in 2019 was 5.29%, which is 4.94% above the 2018 level.

Table 6.1. SOFAZ's budget revenues in 2019

№	Revenue sources	Total revenues (AZN million)		Execution rate (%)
		Approved	Actual	
1.	Net income obtained from the sales of hydrocarbons falling into the share of Azerbaijan (excluding expenditures on transportation, customs clearance and banking services, independent surveyor services, marketing and insurance costs, as well as the shareholder incomes received by SOCAR in the capacity of investor, shareholder or partner in different projects it is a party to	13 218.7	14 614.7	110.5
2.	Acreage fees paid by investors per land used for the exploitation of hydrocarbon reserves	4.7	4.7	100.0
3.	Revenues from the transit of oil and gas through the territory of the Republic of Azerbaijan	19.0	18.9	99.5
4.	Bonus payments made by investors within the framework of signing or executing oil and gas contracts	765.2	766.4	100.2
5.	Revenues obtained from the management of SOFAZ's assets	1 442.5	3 625.9	251.4
Total revenues		15 450.1	19 030.6	123.2

Extrabudgetary revenues. In 2019, SOFAZ’s extrabudgetary revenues obtained from the appreciation of the foreign currencies that constitute the SOFAZ’s portfolio against manat amounted to AZN 731.7 million.

Expenditures. In 2019, SOFAZ’s budget expenditures constituted AZN 11 588.6 million and were executed at the level of 99.9% from the projected amount. In the reference year, SOFAZ’s expenditure structure was as follows:

The improvement of the socioeconomic conditions of internally displaced persons (IDPs). In 2019, a total sum of AZN 200 million was spent on funding the aforementioned measures, this budget item having been executed at the 100% to the projected level (AZN 200 million).

Upper limit of the transfer from SOFAZ to the state budget. In 2019, a transfer of AZN 11 364.3 million from SOFAZ to the state budget was executed, 100% of the sum approved in the budget project (AZN 11 364.3 million).

SOFAZ’s administrative expenses. In 2019, SOFAZ’s administrative expenditures amounted to AZN 24.3 million, or 78.6% of the figure approved in the budget plan for the respective item (AZN 30.9 million). Compensation of labor costs in the structure of administrative expenses equaled AZN 8 197.4 thousand (86.8% relative to the forecast). Expenditures on procurement of goods (works and services) constituted AZN 4 123.7 thousand, or 85.6% of the projected level. Expenditures on grants and other payments constituted AZN 725.5 thousand, having been executed at the level of 94.8% . Expenditure on allowances and social benefits amounted to AZN 49.3 thousand (75.9% of the projected sum) and expenditure on other expenses item was constituted AZN 8 577.6 thousand which was 73.5% of forecasted amount. Expenditure on the acquisition of non-financial assets item amounted to AZN 2 631.4 thousand which constituted 62.9% of the amount projected for this item.

Table 6.2. Execution of SOFAZ’s administrative expenditures

Items	AZN thousand		
	2019		
	Approved	Executed	Execution rate (%)
Salary payments	9 440.7	8 197.4	86.83
Procurement of goods (works and services)	4 819.4	4 123.7	85.56
Grants and other payments	765.5	725.5	94.78
Allowances and social benefits	65.0	49.3	75.92
Other expenses	11 666.9	8 577.6	73.52
Acquisition of non-financial assets	4 180.9	2 631.4	62.94
Total	30 938.4	24 304.9	78.56

Table 6.3. SOFAZ’s budget expenditures in 2019

№	Expenditure items	Expenditure amount (AZN million)		Execution rate (%)
		Approved	Actual	
1.	The improvement of the socioeconomic conditions of internally displaced persons (IDPs)	200.00	200.00	100.00
2.	Transfer from SOFAZ to the state budget in 2019	11 364.30	11 364.30	100.00
3.	SOFAZ’s administrative expenses	30.94	24.30	78.60
Total expenses		11 595.24	11 588.6	99.9

EVENTS CELEBRATING SOFAZ’S 20th ANNIVERSARY

“Create nature yourself this spring!”

- SOFAZ and The Ministry of Ecology and Natural Resources launched a joint spring tree-planting campaign with the motto “Create nature yourself this spring!” As part of this campaign, SOFAZ’s employees planted 1,000 almond trees in an area covering 1.5 hectares.



Commemorative coin

- The Central Bank of the Republic of Azerbaijan issued an AZN 5-denominated silver commemorative jubilee coin marking the 20th anniversary of SOFAZ.



“Stock Pitch” competition

- SOFAZ organized a “Stock Pitch” competition for students. Overall, 63 teams from 11 universities submitted participation requests. Eight teams were shortlisted to the semi-final stage and out of these, only four advanced to the final stage. The judges evaluated the teams’ presentations, investment choices, analytical skills and preparedness for the Q&A session during the competition. The following teams made it to the top three: “Stockholmers” (Baku Engineering University), 1st place; “Blue Chip” (Azerbaijan State University of Economics), 2nd place; and “Intangibles” (Khazar University), 3rd place.



Awards for SOFAZ employees

- The President of Azerbaijan, Ilham Aliyev, awarded a number of SOFAZ employees with “Progress” and “Labor Order” medals.



Competition for media representatives

- SOFAZ organized a research article competition on “The role of the sovereign wealth funds in the economy of emerging countries: on the basis of the State Oil Fund of the Republic of Azerbaijan” for media representatives. Mr Aflatun Amashov, the Chairman of the Azerbaijan Press Council and Member of Parliament; Mr Shahmar Movsumov, Executive Director of SOFAZ; members of the Press Council and journalists attended the award ceremony. In total, 31 journalists have submitted their articles. The jury picked six winners and awarded ten people with consolation prizes.



Commemorative stamps

- Azermarka LLC of the Ministry of Transport, Communications and High Technologies issued a commemorative postage stamp dedicated to the 20th anniversary of SOFAZ and put 80,000 copies of the stamp into circulation.



“Impact Investing: Opportunities and challenges for institutional investors”

- SOFAZ hosted an international conference titled “Impact Investing: Opportunities and challenges for institutional investors,” in partnership with the International Finance Corporation (IFC) and with the support of the European Bank for Reconstruction and Development (EBRD). The conference aimed to pinpoint the most recent developments in the impact investing sector, as well as analyze its investment environment and the possible challenges and opportunities it faces. The conference consisted of six sessions, which aimed to solidify the definition of impact investing among institutional investors, potential future scale of impact investing, including evolving markets and products in this area, measurement and reporting tools, the role of sound government policy framework in the future of this industry, as well as climate change transitions. More than 200 participants composed of the likes of leading sovereign wealth funds, pension funds, multilateral agencies, industry practitioners, government bodies, universities and private sector companies, attended the conference.



7. CONSOLIDATED FINANCIAL STATEMENTS OF SOFAZ

The State Oil Fund of the Republic of Azerbaijan

31 December 2019

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

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Independent Auditor’s Report

To the Supervisory Board of the State Oil Fund of the Republic of Azerbaijan:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the State Oil Fund of the Republic of Azerbaijan (the “SOFAZ”) and its subsidiaries (together – the “Fund”) as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Fund’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year 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 Fund in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund’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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund’s financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 Fund’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 Fund’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 Fund 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 Fund 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

20 May 2020
Baku, the Republic of Azerbaijan

PricewaterhouseCoopers Audit Azerbaijan LLC
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Consolidated statement of financial position

In thousands of Azerbaijani Manats	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Investment properties	10	2,517,219	2,584,684
Property and equipments		124,723	127,487
Intangible assets		2,632	5,407
Investments in joint ventures	11	1,047,199	1,167,214
Total non-current assets		3,691,773	3,884,792
Current assets			
Cash and cash equivalents	7	2,590,446	1,264,588
Term deposits		7,577	-
Financial assets at fair value through profit or loss	8	59,612,520	57,338,275
Gold bullion	9	8,381,163	3,558,246
Other current assets		27,677	25,821
Total current assets		70,619,383	62,186,930
TOTAL ASSETS		74,311,156	66,071,722
Equity			
Contributed capital		37,529,718	33,689,328
Foreign currency translation reserve		776,386	766,965
Retained earnings		34,908,734	30,592,664
Equity attributable to the owner		73,214,838	65,048,957
Non-controlling interest		7,502	8,436
Total equity		73,222,340	65,057,393
Liabilities			
Non-current liabilities			
Borrowings of subsidiaries		928,066	935,981
Tenancy deposits		49,302	48,414
Deferred tax liability		15,894	13,780
Lease liabilities		77,792	-
Total non-current liabilities	13	1,071,054	998,175
Current liabilities		17,762	16,154
TOTAL LIABILITIES		1,088,816	1,014,329
TOTAL EQUITY AND LIABILITIES		74,311,156	66,071,722

The notes set out on pages 76 to 125 form an integral part of these consolidated financial statements.

Consolidated statement of profit and loss and other comprehensive income

In thousands of Azerbaijani Manats	Notes	2019	2018
Interest income calculated using the effective interest method		40,914	86,042
Interest income from financial assets at fair value through profit or loss	14	922,538	840,516
Dividend income		390,334	266,518
Net loss on foreign currency translation differences	15	(524,267)	(1,411,237)
Net gain/(loss) on financial assets at fair value through profit or loss	16	2,245,291	(847,509)
Net gain on gold bullions	9	1,194,590	32,497
Net fair value gain/(loss) on revaluation of investment properties	10	64,971	(108,674)
Rental income		75,724	167,236
Other operating income		32,937	271,253
Total operating income / (loss)		4,443,032	(703,358)
Operating expenses	17	(103,437)	(103,513)
Share of after-tax results of joint venture	11	(22,056)	38,887
Profit / (loss) before income tax		4,317,539	(767,984)
Income tax	19	(1,320)	(455)
Net profit / (loss) for the year		4,316,219	(768,439)
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		12,209	(404,055)
Other comprehensive income / (loss) for the year		12,209	(404,055)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		4,328,428	(1,172,494)
Profit / (loss) is attributable to:			
- The owner		4,316,070	(768,927)
- Non-controlling interest		149	488
Profit / (loss) for the year		4,316,219	(768,439)
Total comprehensive income / (loss) is attributable to:			
- The owner		4,325,491	(1,175,838)
- Non-controlling interest		2,937	3,344
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		4,328,428	(1,172,494)

The notes set out on pages 76 to 125 form an integral part of these consolidated financial statements.



Consolidated statement of changes in equity

In thousands of Azerbaijani Manats		Attributable to the Owner				Non-controlling interest	Total Equity
		Note	Contributed capital	Currency translation reserve	Retained earnings	Total	
At 1 January 2018			27,688,603	1,173,876	31,656,494	60,518,973	60,526,993
Adoption of IFRS 9: -effect of measurement of financial assets at fair value, which previously were measured at amortised cost							
Restated balance at 1 January 2018			27,688,603	1,173,876	31,361,591	60,224,070	60,232,090
Profit / (loss) for the year			-	-	(768,927)	(768,927)	(768,439)
Other comprehensive income / (loss)			-	(406,911)	-	(406,911)	(404,055)
Total comprehensive income for 2018			-	(406,911)	(768,927)	(1,175,838)	(1,172,494)
Contributions received	12	17,433,067	-	-	-	17,433,067	17,433,067
Exchange translation differences		-	-	-	-	-	(2,928)
Transfers to the State Budget	18	(10,959,000)	-	-	-	(10,959,000)	(10,959,000)
Transfers to the State Committee for Affairs of Refugees and Internally Displaced Persons and Social Development Fund of the Republic of Azerbaijan	18	(199,979)	-	-	-	(199,979)	(199,979)
Transfers for the reconstruction of Samur- Absheron Irrigation system	18	(89,999)	-	-	-	(89,999)	(89,999)
Transfers for the construction of new Baku-Tbilisi-Kars railway line	18	(176,128)	-	-	-	(176,128)	(176,128)
Transfers for the State Program on "Education of Azerbaijani youth abroad"	18	(7,236)	-	-	-	(7,236)	(7,236)
Balance at 31 December 2018			33,689,328	766,965	30,592,664	65,048,957	65,057,393
Profit for the year			-	-	4,316,070	4,316,070	4,316,219
Other comprehensive income			-	9,421	-	9,421	12,209
Total comprehensive income for 2019			-	9,421	4,316,070	4,325,491	4,328,428
Contributions received	12	15,404,690	-	-	-	15,404,690	15,404,690
Exchange translation differences		-	-	-	-	-	(3,871)
Transfers to the State Budget	18	(11,364,300)	-	-	-	(11,364,300)	(11,364,300)
Transfers to the State Committee for Affairs of Refugees and Internally Displaced Persons and Social Development Fund of the Republic of Azerbaijan	18	(200,000)	-	-	-	(200,000)	(200,000)
Balance at 31 December 2019			37,529,718	776,386	34,908,734	73,214,838	73,222,340

The notes set out on pages 76 to 125 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

In thousands of Azerbaijani Manats		Notes	2019	2018
Cash flows from operating activities:				
Profit / (loss) before income tax expense			4,317,539	(767,984)
Adjustments to reconcile result to net cash used in operating activities				
Depreciation of property and equipment			3,445	5,695
Amortization of intangible assets			2,781	2,783
Unrealized (gain)/loss on change in fair value of financial assets at fair value through profit or loss		16	(2,164,974)	1,294,052
Net unrealized loss on foreign currency translation differences			494,041	1,071,438
Net gain on revaluation of gold bullion		9	(1,194,590)	(32,497)
Fair value (gain)/loss on revaluation of investment properties		10	(64,971)	108,674
Share of after-tax results of joint venture		11	22,056	(38,887)
Interest income			(963,452)	(926,558)
Dividend income			(390,334)	(266,518)
Write-down of VAT receivables and current income tax asset			18	13,596
Changes in operating assets and liabilities:				
Increase in financial assets at fair value through profit or loss		8	(379,693)	(7,683,782)
Increase in term deposits			(7,577)	-
Purchase of gold bullions		9	(3,628,327)	(1,388,537)
Increase in investment properties		10	(10,093)	(6,863)
Increase in other assets			(1,875)	(6,557)
Increase in current liabilities			1,823	2,918
Increase in investment in joint venture		11	-	(151,646)
Net cash used in operating activities			(3,964,183)	(8,770,673)
Cash flows from investing activities:				
Interest received			761,551	758,490
Dividend received			390,334	266,518
Dividend received from joint venture			19,053	-
Proceeds from disposal of investment property		10	213,099	-
Capital repayment from jointly controlled entity		11	76,500	-

Consolidated statement of cash flows

Purchase of property and equipment		(688)	(176)
Net cash from investing activities		1,459,849	1,024,832
Cash flows from financing activities:			
Contributions received	12	15,404,690	17,433,067
Transfers to the State Budget	18	(11,364,300)	(10,959,000)
Transfers to the State Committee for Affairs of Refugees and Internally Displaced Persons and Social Development Fund of the Internally Displaced Persons of the Republic of Azerbaijan	18	(200,000)	(199,979)
Proceeds from borrowings	13	-	456,300
Transfers for the reconstruction of Samur - Absheron Irrigation system	18	-	(89,999)
Transfers for the construction of new Baku-Tbilisi-Kars railway line	18	-	(176,128)
Transfers for the State Program on “Education of Azerbaijani youth abroad”	18	-	(7,236)
Net cash from financing activities		3,840,390	6,457,025
Effect of exchange rate changes on cash and cash equivalents		(10,198)	(193,977)
Net increase/(decrease) in cash and cash equivalents		1,325,858	(1,482,793)
Cash and cash equivalents, beginning of the year	7	1,264,588	2,747,381
Cash and cash equivalents, end of the year	7	2,590,446	1,264,588

Notes to the Consolidated Financial Statements – 31 December 2019

1. The State Oil Fund of the Republic of Azerbaijan and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) for the year ended 31 December 2019 for the State Oil Fund of the Republic of Azerbaijan (“SOFAZ”) and its subsidiaries (the “Fund”).

SOFAZ was incorporated and is domiciled in the Republic of Azerbaijan.

Principal Activity. The State Oil Fund of the Republic of Azerbaijan was established by Decree #240 of the President of the Republic of Azerbaijan on the “Establishment of The State Oil Fund of the Republic of Azerbaijan” dated 29 December 1999 (the “Decree”). The purpose of SOFAZ is to ensure the accumulation, effective management, and use of income and other

inflows generated from agreements related to oil and gas exploration and development, as well as, from SOFAZ’s own activities, for the benefit of citizens and future generations of the Republic of Azerbaijan.

In accordance with the Decree and the Regulations (discussed below), SOFAZ is an extra-budget state organization, formed as a separate legal entity, which is accountable and responsible to the President of the Republic of Azerbaijan.

The consolidated financial statements include the financial statements of SOFAZ and its direct and indirect subsidiaries listed in the following table and the after-tax results of its joint ventures:

Subsidiary	% interest		Country	Date of establishment	Date of acquisition	Industry
	2019	2018				
SOFAZ RE Limited	100	100	Jersey	22-May-12	-	Property management
SOFAZ RE UK L.P.	100	100	Jersey	6-Aug-12	-	Property management
SOFAZ RE Min Limited	100	100	Jersey	13-Aug-12	-	Property management
78, St James`s Street Unit Trust	100	100	Jersey	2-Oct-12	-	Property management
JSC Tverskaya 16	100	100	Russian Federation	29-Jun-93	21-Dec-12	Property management
SOFAZ RE Europe Holding S.a.r.l	100	100	Luxembourg	31-Oct-12	-	Property management
SOFAZ RE Europe S.a.r.l.	100	100	Luxembourg	31-Oct-12	-	Property management
SCI 8 Place Vendome	100	100	France	14-Nov-12	-	Property management
MAPS 21	100	100	South Korea	30-Oct-11	31-Mar-14	Property management
Godo Kaisha GK001	98	98	Japan	21-Aug-15	26-Aug-15	Property management
SOFAZ RE Fund S.a.r.l	100	100	Luxembourg	27-May-15	-	Investment management
SOFAZ PE Fund S.a.r.l	100	100	Luxembourg	28-Sep-15	-	Investment management
SOFAZ Italy Fund	100	100	Italy	19-Oct-15	-	Property management
SOFAZ Europe S.C.S.	100	100	Luxembourg	06-Dec-17	-	Investment management
SOFAZ Fund Limited	100	100	Jersey	28-Dec-18	-	Investment management

Contributions into the Fund are made in accordance with the Regulation of the Fund (“Regulation”) approved by the Presidential Decree #434 dated 29 December 2000 and Article 2.3 of the “Regulations on Development and Implementation of the Annual Program of Income and Expenses (“Budget”) of the Fund” approved by the Presidential Decree #579 dated 12 September 2001. The contributions are received from the following sources:

a) Agreements on exploration, development and production sharing for oil and gas fields in the territory of the Republic of Azerbaijan including the Azerbaijan Sector of the Caspian Sea, as well as other agreements on oil and gas exploration, development and transportation entered into between SOCAR or other authorized state bodies and investors, including:

i. Contributions from the sale of hydrocarbons related to the share of the Republic of Azerbaijan in oil and gas agreements (net of expenditures incurred for hydrocarbons transportation, customs clearance and bank costs, marketing, insurance, and independent surveyor fees) excluding portion related to the participating interest or investment of SOCAR in a project in which SOCAR is an investor, participant or a contracting party;

ii. Bonus payments - the fees payable by foreign oil companies to SOCAR or other relevant authorities of the Republic of Azerbaijan due to signing of an oil and gas contracts and its implementation;

iii. Acreage payments due to SOCAR and/or an authorized state body of the Republic of Azerbaijan from investors for the use of the contract area in connection with oil and gas exploration and development;

iv. Contributions generated from oil and gas transported over the territory of the Republic of Azerbaijan by means of the Baku-Supsa, Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum export pipelines (excluding shareholder revenues of SOCAR from its investments in the projects where it is an investor, participant or a contracting party);

v. Dividends and profit participation revenues falling on the share of the Republic of Azerbaijan in connection with oil and gas agreements implementation (excluding portion related to the participating interest or investment of SOCAR in a project in which SOCAR is an investor, participant or a contracting party);

vi. Contributions generated from the transfer of assets from investors to an authorized state body within the framework of oil and gas agreements.

b) Revenues generated from investment, management, sale and other disposal of the Fund's assets (including financial assets and assets contributed by investors within oil and gas agreements), other non-sale income or revaluation surplus of the Fund's assets in its reporting currency (Azerbaijani manats), etc.;

c) Grants and other free aids;

d) Other revenues and receipts in accordance with the legislation of the Republic of Azerbaijan.

In 2019 and 2018, the Fund was a party to a custody agreement with the Bank of New York Mellon.

Management of some portion of the financial assets of the Fund is granted to financial institutions namely DWS International GmbH, the International Bank for Reconstruction and Development (IBRD – World Bank Group), State Street Global Advisors Limited (SSGA), UBS Asset Management (UK) LTD, Sumitomo Mitsui Trust International LTD, Blackrock Investment Management (UK) LTD and Mellon Capital Management Corporation. Under the custody agreement the financial institutions hold securities purchased by the Fund, whereas in accordance with the investment management agreements the financial institutions manage the Fund's investments within the mandate based on general investment policies established by the Fund.

SOFAZ's registered and actual office address is 165, Heydar Aliyev Avenue, Baku, Azerbaijan, AZ1029.

These consolidated financial statements as of and for the year ended 31 December 2019 are authorized for issue by the Fund's Management on 20 May 2020.

Presentation currency. These consolidated financial statements are presented in thousands of Azerbaijani Manats ("AZN"), unless otherwise stated.

2. Operating Environment of the Fund

In 2019, Azerbaijan continued multilateral and consistent reforms, developing the non-oil sector and increasing non-oil exports, balanced development of regions, improving business investment environment, stimulating the small and medium private sector and the agricultural projects. Consistent measures have been taken in the field of government support for entrepreneurship.

The year 2019 will also be remembered for the revolutionary steps taken in the direction of social protection of the population. Among these steps are measures to solve problem loans, strengthen the social protection of pensioners and other social groups, increase state care for education, health and culture workers, build new settlements for IDPs and other such measures have laid the foundation for significant progress in socio-economic life.

During the year, inflation was stable at a low single-digit rate, the economic growth remained positively zoned, the exchange rate of the national currency was sustainable, positive trends emerged in the foreign sector, balance of payments surplus contributed to the increased strategic foreign currency reserves of the country.

In line with the new reform curriculum, reorganization of taxation principles and improvement of tax administration, work on the strategic road maps, introduction of modern innovative technologies, transparency, increasing mutual trust between taxpayers and tax authorities, etc. comprehensive measures were

taken. In order to solve a number of issues arising from the demands of modern challenges, remove some gaps in tax legislations a new edition of the Tax Code has been prepared by taking into account opinions and suggestions of various government agencies and public organizations, associations, entrepreneurs.

In 2019, Standard & Poor's, international credit agency, kept Azerbaijan's long-term and short-term sovereign loan rating at 'BB+/B'. The agency linked keeping the rating unchanged with the sound fiscal position of the country, in particular due to the foreign currency reserves of SOFAZ.

The Fund's management observes these developments related to the economic environment and takes precautionary measures as it considers necessary in order to support the sustainable development of the Fund's strategy. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

3. Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, gold bullions, and instruments categorised at fair value through profit or loss ("FVTPL"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. (refer to Note 5).

The preparation of the 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 Fund'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.

The Fund presents its consolidated statement of financial position separating current and non-current assets and liabilities. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented.

Consolidated financial statements. Subsidiaries are

those investees, including structured entities, that the Fund controls because the Fund (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 Fund 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 Fund 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 Fund 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 Fund from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Fund (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Fund measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including

the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. SOFAZ and all of its subsidiaries use uniform accounting policies consistent with the Fund's policies. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Fund's accounting policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by SOFAZ. Non-controlling interest forms a separate component of the Fund's equity.

Purchases and sales of non-controlling interests. The Fund applies the economic entity model to account for transactions with owners of non-controlling interest in transactions that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Fund recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. SOFAZ has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Fund's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Fund's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Fund's net investment in the joint ventures), the Fund does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Fund and its joint ventures are eliminated to the extent of the Fund's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Fund.

Disposals of subsidiaries, associates or joint ventures. When the Fund ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Fund had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Foreign currency translation. The functional currency of each of the Fund's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of SOFAZ and the Fund's presentation currency, is the national currency of the Republic of Azerbaijan, Azerbaijani Manat ("AZN"). The consolidated financial statements are presented in Azerbaijani Manat ("AZN"), which is the Fund'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. 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.

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

The results and financial position of each 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.

When control over a foreign operation or a subsidiary with a functional currency other than the functional or presentation currency of the Fund is lost, the exchange differences recognised previously in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

At 31 December 2019, the principal rates of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000; EUR 1 = AZN 1.9035; KRW 100 = AZN 0.1470; GBP 1 = AZN 2.2284; JPY 100 = AZN 1.5578; RUB 1 = AZN 0.0274 (2018: USD 1 = AZN 1.7000; EUR 1 = AZN 1.9468; KRW 100 = AZN 0.1521; GBP 1 = AZN 2.1529; JPY 100 = AZN 1.5366; RUB 1 = AZN 0.0245). The principal average rate of exchange used for translating income and expenses was USD 1 = AZN 1.7000; EUR 1 = AZN 1.9027; KRW 100 = AZN

0.1459; GBP 1 = AZN 2.1698; JPY 100 = AZN 1.5599; RUB 1 = AZN 0.0263 (2018: USD 1 = AZN 1.7000; EUR 1 = AZN 2.0069; KRW 100 = AZN 0.1545; GBP 1 = AZN 2.2679; JPY 100 = AZN 1.5384; RUB 1 = AZN 0.0272).

Investment property. Investment property is property held by the Fund to earn rental income or for capital appreciation, or both and which is not occupied by the Fund. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

In the absence of current prices in an active market, the Fund considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Market value of the Fund's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category.

If a valuation obtained for a property is net of all payments expected to be made, any related lease liability recognised separately in the statement of financial position is added back to arrive at the carrying value of the investment property for accounting purposes.

Earned rental income is recorded in profit or loss for the year within rental income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately. Gains or losses on disposal of investment

property are calculated as proceeds less carrying amount. Where the Fund disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in profit or loss for the year within net gain from fair value adjustment on investment property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Fund and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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.

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 20.

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. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL

allowance is recognised for financial assets measured at AC and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), resulting in an immediate accounting loss.

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

Financial assets – classification and subsequent measurement – measurement categories. The Fund classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Fund'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 Fund manages the assets in order to generate cash flows – whether the Fund'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.

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

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Fund 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 Fund 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.

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

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Financial assets impairment – credit loss allowance for ECL. The Fund assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI. The Fund 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 and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Fund applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Fund identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Fund determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.



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

Financial assets - derecognition. The Fund derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Fund 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 Fund sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Fund 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, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

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

An exchange between the Fund and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms

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

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 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, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Money market funds. Investments in Money market funds are included in Cash and cash equivalents and measured at fair value. They are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity they present insignificant risk of changes in value because of changes in interest rates.

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.

Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss include investment in debt and equity securities. Interest from financial assets at fair value through profit or loss includes interest from debt and equity securities. Dividends are included in finance income when the Fund's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading investments in the period in which they arise.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Fund. Investments in equity securities are measured at FVTPL, except where the Fund elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Fund's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Fund's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

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

Income taxes. Income taxes have been provided for in the 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 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 Fund.

The Fund controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Fund 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.

Business combinations. Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Fund, liabilities incurred by the Fund to the former

owners of the acquiree and the equity interests issued by the Fund in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Gold bullion. The Fund is involved in purchase of gold bullion for investment purposes with the intention of diversification of the investment portfolio with the ability to sell the gold in the future. The gold bullion is initially recognized and subsequently measured at fair value with gains or losses recognised in profit or loss.

Premises and equipment. The Fund's premises and equipment are tangible assets held for administrative purposes with an expected useful life of more than one accounting period. Premises and equipment are initially measured at cost and are stated at cost less accumulated depreciation and provision for impairment, where required.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises 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 to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Years
Buildings	50
Vehicles	7
Office equipment	4
Furniture	5
Other property and equipment	3

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

Intangible assets. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic lives (5 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with definite useful lives are reviewed at least at each financial year-end.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Accounting for leases by the Fund as a lessee from 1 January 2019. The Fund leases freehold property. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Fund. Each lease payment is allocated between the liability and finance cost. The finance cost is 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. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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
- restoration costs.

In determining the lease term, management of the Fund 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).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Fund as a lessee prior to 1 January 2019. Where the Fund is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Fund, the total lease payments are charged

to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease. Operating leases included long-term leases of land with rental payments based on cadastral values regularly reviewed and published by the government.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Accounting for operating leases by the Fund as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Accounting for finance leases by the Fund as a lessee prior to 1 January 2019. Where the Fund is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Fund, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other borrowed funds. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Fund is not reasonably certain that it will obtain ownership by the end of the lease term.

Provisions. Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Contingencies. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Fund's consolidated statement of financial position include:

- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Retained earnings'

As discussed in Note 18, in accordance with the Decrees and the Regulations, the Fund is an extra-budget state organization. All decisions regarding contributions to and transfers from the Fund are made and approved by the Decrees of the President of the Republic of Azerbaijan.

Contributions/transfers received/made by the Fund represent contributions/withdrawals and, accordingly, are recognized through net equity at the fair value of the consideration received/paid.

Transfers to the State Budget, as well as state institutions, state-owned entities and companies are recognized on the date of payment. All transfers are made within the approved budget of the Fund and transferred to the State Treasury of the Republic of Azerbaijan for payments to eligible budgetary beneficiaries (state institutions, state-owned entities and companies) based on their requests for payments.

Interest income and expense recognition. Interest income and expense are recorded for financial assets at AC on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt and equity instruments at FVTPL calculated at nominal interest rate is presented within "Interest income from FVTPL assets" line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective

interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Dividend income from financial assets at fair value through profit or loss is recognized in the statement of profit or loss when the Fund's right to receive payment is established.

Other operating income including rental income is recognized on accruals basis, i.e. when these are earned.

Expenses are recognized on accrual basis, i.e. when they are incurred.

Accounting for Cash Inflows and Outflows. As described in Note 1, the Fund receives cash inflows from revenues generated from various oil and gas activities carried out in the Republic of Azerbaijan. These cash inflows are made according to certain decrees of the President of the Republic of Azerbaijan. Cash outflows for major projects and contributions to the State budget are also made according to decrees of the President of the Republic of Azerbaijan. SOFAZ believes these inflows and outflows of funds represent contributed capital and withdrawals of capital, respectively. Accordingly, SOFAZ recognises them as movements in equity in the consolidated statement of changes in equity.

Valuation of financial instruments. Financial instruments that are classified at fair value through profit or loss are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty.

Where market-based valuation parameters are absent, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price

the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the statement of profit or loss and other comprehensive income on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Fund considers that the accounting estimates related to valuation of financial instruments where quoted markets prices are not available are a key source of estimating uncertainty because: (i) they are highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in the statement of financial position as well as its profit/(loss) could be material.

Management uses different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments where quoted market prices are not available using their own knowledge and capabilities, as well as, data obtained from its custodians (mainly Bank of New York Mellon) and Bloomberg. Please refer to Note 20.

Measurement of fair value of investment properties and property and equipment (building). Fair value of investment properties as well as at the property and equipment (building) is determined by independent professionally qualified appraisers. Fair value is determined using the combination of internal capitalization method (also known as discounted future cash flow method), sales comparison method and also based on the highest and best use method.

Staff costs and related contributions. Wages, salaries, contributions to the Azerbaijan State Social Insurance Fund, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Fund. The Fund has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Fund 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:

Structured entities. Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Fund and a structured entity indicates that the structured entity is controlled by the Fund.

The Fund does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Fund does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the structured entity is consolidated.

Were the Fund not to consolidate the assets, liabilities and the results of these consolidated structured entities, the net effect on the statement of financial position would be a decrease in net assets of AZN 431,053 thousand (31 December 2018: decrease in net assets of AZN 427,795 thousand) and decrease in profit by AZN 18,712 thousand (2018: decrease of AZN 23,300 thousand). Refer to Note 25 for further information about the structured entity.

5. Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Fund from 1 January 2019:

Adoption of IFRS 16, Leases. The Fund decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method,

without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

In thousands of Azerbaijani Manats	Note	Impact of adopting IFRS 16
Increase in right-of-use assets	10	78,245
Increase in lease liabilities	13	78,245

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Fund:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendment to IAS 12, Income Taxes, included in the Annual Improvements to IFRSs 2015-2017 cycle.

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 2020 or later, and which the Fund has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a

date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Fund is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 17 “Insurance Contracts” (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Fund is currently assessing the impact of the new standard on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Fund when adopted:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

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

7. Cash and Cash Equivalents

Cash and cash equivalents comprise:

In thousands of Azerbaijani Manats	2019	2018
Money market funds	1,429,032	553,139
Bank accounts	1,160,617	707,012
Short-term deposits	797	4,437
Total cash and cash equivalents	2,590,446	1,264,588

Money market funds

Investments in money market funds represent share ownership in funds, payable on demand. Investments in money market funds are highly liquid. Money market funds invest their assets in short-term debt and debt related instruments, such as commercial paper, certificates of deposit, bonds bearing floating interests, US treasury bonds, Eurobonds and asset-backed securities. Interest and dividends payable to the Fund are reinvested. The fair value of money market fund approximates their carrying amount.

The Fund had the following investments in the money market funds with AAA credit ratings:

In thousands of Azerbaijani Manats	2019	2018
BlackRock ICS-Institution Liquidity Funds plc	1,429,032	502,712
The Goldman Sachs Group, Inc	-	50,427
Total money market funds	1,429,032	553,139

Bank accounts

Bank accounts were denominated in the following currencies:

In thousands of Azerbaijani Manats	2019	2018
AZN	1,010	895
USD	694,638	465,938
GBP	67,599	77,284
CNY	1,349	1,515
CHF	1,946	3,625
AUD	2,108	5,899
EUR	340,082	106,213
RUB	398	2,543
KRW	1,476	2,596
CAD	822	697
HKD	435	143
NOK	406	199
DKK	208	114
NZD	143	64
JPY	43,175	37,516
SGD	220	181
SEK	75	126
ILS	93	151
TRY	4,434	1,313
Total bank accounts	1,160,617	707,012

As at 31 December 2019, the Fund had AZN 71 thousand and AZN 972 thousand (2018: AZN 112 thousand and AZN 820 thousand) held at bank accounts in the International Bank of Azerbaijan and the Central Bank of the Republic of Azerbaijan, respectively.

Other accounts originated in foreign currencies were opened with non-resident banks with long-term ratings B/B2 (Standard & Poor's/ Fitch/Moody's) and above.

The credit quality of cash and cash equivalents balances may be summarised (based on Standard and Poor's/Fitch/Moody's ratings) as follows at 31 December 2019:

In thousands of Azerbaijani Manats	Bank Account	Short term Deposit	Money Market Funds	Total
<i>Neither past due nor impaired</i>				
AAA	-	-	1,429,032	1,429,032
AA	4,446	-	-	4,446
A	557,195	797	-	557,992
BBB*	593,499	-	-	593,499
B	4,505	-	-	4,505
Total cash and cash equivalents**	1,159,645	797	1,429,032	2,589,474

*- AZN 397 thousand (2018: AZN 4,198 thousand) of this amount denotes the cash balances held by the Fund's subsidiaries, where the Fund is not directly involved in cash allocations.

** - AZN 972 thousand (2018: AZN 820 thousand) cash balance held by the Fund in the Central Bank of the Republic of Azerbaijan is excluded from the table. Central Bank of the Republic of Azerbaijan does not have credit rating.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for cash and cash equivalents.

The credit quality of cash and cash equivalents balances may be summarised (based on Standard and Poor's/Fitch/Moody's ratings) as follows at 31 December 2018:

In thousands of Azerbaijani Manats	Bank Account	Short term Deposit	Money Market Funds	Total
<i>Neither past due nor impaired</i>				
AAA	-	-	553,139	553,139
AA	5,560	-	-	5,560
A	147,496	4,437	-	151,933
BBB	550,050	-	-	550,050
BB	1,661	-	-	1,661
B	1,425	-	-	1,425
Total cash and cash equivalents	706,192	4,437	553,139	1,263,768

Interest rate analysis of cash and cash equivalents is disclosed in Note 22. Information on related party balances is disclosed in Note 24.

8. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss comprise of followings:

In thousands of Azerbaijani Manats	2019	2018
Agency/Supranational bonds	9,293,635	13,082,224
Corporate bonds	25,200,773	28,786,959
Sovereign bonds	12,429,189	2,915,648
Money Market	1,141,605	4,070,231
Private Equity Funds	902,260	641,363
Real Estate Funds	2,608,665	1,612,098
Equity securities	8,036,393	6,229,752
Total financial assets at fair value through profit or loss	59,612,520	57,338,275

As at 31 December 2019 the Fund held AZN 7,887,278 thousand (2018: AZN 6,301,821 thousand) under asset management agreements with financial institutions (“external managers”) including cash and cash equivalents. The management fees in 2019 to the external managers were AZN 2,850 thousand (2018: AZN 2,887 thousand).

Agency/Supranational bonds. These bonds are represented by investments in debt securities issued by international organizations of Europe, Asia and America. As at 31 December 2019 these securities bear fixed interest ranging from 0.06% p.a. to 6.25% p.a. and USD LIBOR, GBP LIBOR, CNY 5-day average SHIBOR with the spread ranging from -0.05% p.a. to +0.925% p.a. (2018: 0.125% p.a. to 5.75% p.a. and USD LIBOR, GBP LIBOR, CNY 5-day average SHIBOR with the spread ranging from -0.05% p.a. to +0.9% p.a.) and mature during the period from January 2020 to November 2024 (2018: January 2019 to November 2023). As at 31 December 2019 total accrued interest on these securities amounted AZN 39,672 thousand (2018: AZN 52,411 thousand). These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, DWS International GmbH and IBRD – World Bank Group.

Corporate bonds. Corporate bonds are represented by investments in debt securities issued by corporations of Europe, Asia, Australia and America. As at 31 December 2019 these securities bear fixed interest ranging from 0.0% p.a. to 7.875% p.a. and USD LIBOR, GBP LIBOR, EURIBOR and Australian Bank Bill Short Term Rate with the spread ranging from +0.21% p.a. to +4% p.a.(2018: 0.0% p.a. to 7.5% p.a. and USD LIBOR, GBP LIBOR, EURIBOR and Australian Bank Bill Short Term Rate with the spread ranging from +0.16% p.a. to +4% p.a.) and mature during the period from January 2020 to January 2031 (2018: January 2019 to January 2031). As at 31 December 2019 total accrued interest on these securities amounted AZN 740,269 thousand (2018: AZN 555,575 thousand). These securities were held in the portfolio managed both directly by the Fund and the Fund's external managers DWS International GmbH and IBRD – World Bank Group.

Sovereign bonds. Sovereign bonds are represented by investments in debt securities issued by various European, Asian, Australian and American institutions. As at 31 December 2019 these securities bear fixed interest ranging from 0.0% p.a. (zero-coupon sovereigns expressed in TRY and GBP) to 11.75% p.a (2018: 0.05% p.a. to 11.75% p.a and EURIBOR with the spread +1.20% p.a.) and mature during the period from January 2020 to May 2029 (2018: January 2019 to September 2029). As at 31 December 2019 total accrued interest on these securities amounted AZN 60,900 thousand (2018: AZN 31,060 thousand). These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, DWS International GmbH and IBRD – World Bank Group.

Private Equity Funds

The IFC Funds are comprised of three independent investment funds: IFC Global Infrastructure Fund (“IFC GIF”), IFC Catalyst Fund (“IFC CF”) and IFC African, Latin American and Caribbean Fund (“IFC ALAC”).

“IFC GIF” was formed with the purpose of identifying, acquiring, holding and disposing of a portfolio of equity or equity related infrastructure investments in emerging markets. The Fund's commitment to “IFC GIF” is USD 200,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “IFC GIF” was AZN 144,707 thousand (2018: AZN 174,850 thousand).

“IFC CF” was formed with the purpose of investing in a portfolio of limited partnerships or equivalent interests of investment funds or other pooled investment vehicles (“Investee Funds”), and direct co-investments primarily focused on resource efficiency and developing low-emission products and services in emerging markets. The Fund's commitment to “IFC CF” is USD 50,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “IFC CF” was AZN 69,395 thousand (2018: AZN 53,845 thousand).

“IFC ALAC” was formed with the purpose of identifying, acquiring, holding and disposing a portfolio of equity or equity related investments in the African, Latin American and Caribbean regions. The Fund's commitment to “IFC ALAC” is USD 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “IFC ALAC” was AZN 51,370 thousand (2018: AZN 60,035 thousand).

“NB Caspian Partners” is a separately managed Private Equity mandate formed with the purpose of investing predominantly in buy-out funds in the developed markets. The Fund's commitment to “NB Caspian Partners” is USD 300,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “NB Caspian Partners” was AZN 272,208 thousand (2018: AZN 183,129 thousand).

“EBRD EPF” was formed by EBRD with the purpose of providing investors with the exposure to EBRD's equity investments in Central and Eastern Europe, Mediterranean, Central Asia. The Fund's commitment to “EBRD EPF” is EUR 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “EBRD EPF” was AZN 70,838 thousand (2018: AZN 62,956 thousand).

“BC European Capital X” is a BC Partners’ buyout fund focused on acquiring large businesses exhibiting defensive growth characteristics mainly in Europe. The Fund's commitment to “BC European Capital X” is EUR 56,300 thousand. As of 31 December 2019 the fair value of Fund's investment in “BC European Capital X” was AZN 82,523 thousand (2018: AZN 53,169 thousand).

“FSI Mid-Market Growth Equity Fund” was formed by FSI in order to invest into Italian mid-market companies in industrial and service sectors. The Fund's commitment to “FSI Mid-Market Growth Equity Fund” is EUR 20,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “FSI Mid-Market Growth Equity Fund” was AZN 13,480 thousand (2018: AZN 9,002 thousand).

“Blackstone Core Equity Partners L.P.” is Blackstone Group's fund which specializes in investments mainly in North America. The Fund's commitment to “Blackstone Core Equity Partners L.P.” is USD 50,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Blackstone Core Equity Partners L.P.” was AZN 75,255 thousand (2018: AZN 41,436 thousand).

“Apollo Fund IX” is a buyout fund founded by Apollo specializing in acquisitions predominantly in North America. The Fund's commitment to “Apollo Fund IX” is USD 85,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Apollo Fund IX” was AZN 23,674 thousand (2018: nil).

“Carlyle Partners VII” is Carlyle Group's buyout fund focused in large-to-mega cap deals in North America. The Fund's commitment to “Carlyle Partners VII” is USD 50,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Carlyle Partners VII” was AZN 18,566 thousand (2018: 2,941 thousand).

“Carlyle Europe Partners V” is Carlyle Group's buyout fund focused in investments in Europe. The Fund's commitment to “Carlyle Europe Partners V” is EUR 50,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Carlyle Europe Partners V” was AZN 14,055 thousand (2018: nil).

“Vista Equity Partners VII” is a tech buyout fund founded by Vista Equity Partners mainly focusing in North America region. The Fund's commitment to “Vista Equity Partners VII” is USD 40,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Vista Equity Partners VII” was AZN 16,012 thousand (2018: nil).

“Warburg Pincus Global Growth” is a diversified growth fund founded by Warburg Pincus focusing mainly in investments in North America, Asia and Europe. The Fund's commitment to “Warburg Pincus Global Growth” is USD 50,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Warburg Pincus Global Growth” was AZN 12,530 thousand (2018: nil).

“PAG Asia Capital Fund III” is a buyout fund of PAG with regional focus in Asia. The Fund's commitment to “PAG Asia Capital Fund III” is USD 30,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “PAG Asia Capital Fund III” was AZN 2,771 thousand (2018: nil).

“Thoma Bravo Fund XIII” is a tech buyout fund of Thoma Bravo with regional focus in North America. The Fund's commitment to “Thoma Bravo Fund XIII” is USD 25,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Thoma Bravo Fund XIII” was AZN 14,097 thousand (2018: nil).

“Baring Private Equity Asia VII” is a buyout fund managed by Baring with regional focus in Asia. The Fund's commitment to “Baring Private Equity Asia VII” is USD 50,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Baring Private Equity Asia VII” was AZN 17,914 thousand (2018: nil).

“Dyal Capital Partners IV” is a fund managed by Dyal Capital Partners which aims to primarily acquire minority equity interests in investment companies. The Fund's commitment to “Dyal Capital Partners IV” is USD 25,000 thousand. As of 31 December 2019 the fair value of Fund's investment in “Dyal Capital Partners IV” was AZN 2,865 thousand (2018: nil).

“Cinven Fund VII” is a buyout fund managed by Cinven which aims to invest in companies with operations in European countries. The Fund's commitment to “Cinven Fund VII” is EUR 48,000 thousand. As of 31 December 2019 the fund has not drawn capital from the Fund yet.

“Green Equity Investors VIII” is buyout fund managed by Leonard Green & Partners which aims to invest in large and mega-cap buyout investments in North America. The Fund's commitment to “Green Equity Investors VIII” is USD 50,000 thousand. As of 31 December 2019 the fund has not drawn capital from the Fund yet.

“Brookfield Infrastructure Fund IV” is an infrastructure fund managed by Brookfield which aims to invest in infrastructure investments globally. The Fund's commitment to “Brookfield Infrastructure Fund IV” is USD 50,000 thousand. As of 31 December 2019 the fund has not drawn capital from the Fund yet.

Real Estate Funds

Real estate's indirect portfolio is comprised of real estate funds and co-investments.

“AXA Pan European Value Added Venture” (PEVAV) was established to implement value-added real estate strategies within targeted European countries including the UK, Germany, France, Spain, Italy, Netherlands, Poland and the Nordic/Scandinavian region. The Fund's commitment to PEVAV is EUR 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in PEVAV was AZN 82,407 thousand (2018: AZN 114,577 thousand).

“PGIM European Value Partners” (EVP) is a real estate

fund formed to acquire real estate assets in the Eurozone, targeting mainly France, Germany, Italy and Spain, with a value-add investment profile. The Fund's commitment to EVP fund is EUR 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in EVP was AZN 145,704 thousand (2018: AZN 149,296 thousand).

“Blackstone Real Estate Partners Europe V” (BREP Europe V) is an opportunistic real estate fund and makes investments mostly in United Kingdom, Germany, Spain and Italy. The Fund's commitment to BREP Europe V fund is EUR 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in BREP Europe V was AZN 183,161 thousand (2018: AZN 121,223 thousand).

“PAG Real Estate Partners” (PREP) is a real estate fund formed to invest in core-plus and value-add real estate assets in Asian Pacific region targeting mainly Japan, China and Australia. The Fund's commitment to PREP fund is USD 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in PREP was AZN 163,248 thousand (2018: AZN 155,509 thousand).

“PGIM Asia Property Fund III” (ASPF III) is primarily focused on investing in the key markets of Australia, China, Japan, Malaysia and Singapore with value added strategy. The Fund's commitment to ASPF III fund is EUR 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in ASPF III was AZN 83,303 thousand (2018: AZN 111,452 thousand).

“Redwood Japan Logistics Fund II” (RJLF II) is a development/opportunistic fund with a focus on logistics real estate investments in Japan. The Fund's commitment to RJLF II fund is USD 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in RJLF II was AZN 189,352 thousand (2018: AZN 103,623 thousand).

“Blackrock Europe Property Fund IV Feeder” (EPF IV Feeder) is a private real estate fund with a value-add strategy focused on the European region. The Fund's commitment to EPF IV Feeder is EUR 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in EPF IV Feeder was AZN 63,889 thousand (2018: AZN 132,522 thousand).

“Gaw Capital Gateway Real Estate Fund V” (GREF V) is a private real estate fund with a value-add strategy focused on the Asia-Pacific region. The Fund's commitment to GREF V is USD 34,100 thousand. As of 31 December 2019 the fair value of Fund's investment in GREF V was AZN 50,932 thousand (2018: AZN 47,371 thousand).

“GAW Capital US Fund III” (GAW US Fund III) is a value-add investment fund, established to invest in North American assets. The Fund's commitment to GAW US

Fund III is USD 63,500 thousand. As of 31 December 2019 the fair value of Fund's investment in GAW US Fund III was AZN 28,140 thousand (2018: 8,174 thousand).

“Walton Street Real Estate Fund VIII” (WSREF VIII) was raised by Walton Street Capital. WSREF VIII is a private real estate fund with a value-add/opportunistic strategy focused on the US. The Fund's commitment to WSREF VIII is USD 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in WSREF VIII was AZN 105,023 thousand (2018: AZN 110,612 thousand).

“Angelo Gordon Commercial Real Estate Debt Opportunities” (AG CREDO) invests in commercial mortgage-backed securities and other real estate debt originally rated investment grade. AG CREDO uses its expertise in the ownership and management of commercial real estate to invest in the real estate debt markets. The Fund's commitment to AG CREDO is USD 50,000 thousand. As of 31 December 2019 the fair value of Fund's investment in AG Commercial R.E Debt Fund was AZN 91,016 thousand (2018: AZN 68,816 thousand).

“Angelo Gordon Realty Value Fund X” (AG Realty X) is a value-add investment fund formed to invest in North America, Europe, and APAC. The Fund's commitment to AG Realty Value is USD 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in AG Realty Value Fund was AZN 32,909 thousand (2018: nil).

“Ares US Real Estate Fund IX” (Ares US IX) is a private real estate fund with a core-plus/value-add strategy focused on the US region. The Fund's commitment to Ares US IX is USD 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in Ares US IX was AZN 89,712 thousand (2018: AZN 33,823 thousand).

The Fund made a value-add mixed-use co-investment with “GAW Capital GREF V” (Sophia) in Singapore. The Fund's commitment with regard to this investment is USD 20,000 thousand. As of 31 December 2019 the fair value of Fund's investment in this asset was AZN 31,553 thousand (2018: AZN 32,673 thousand).

“Starwood Global Opportunity Fund XI” (SOF XI) was established to implement value-add/opportunistic real estate strategies targeted globally, but with a focus on North America and Europe. The Fund's commitment to SOF XI is USD 200,000 thousand. As of 31 December 2019 the fair value of Fund's investment in SOF XI was AZN 72,161 thousand (2018: AZN 14,408 thousand).

“PAG Real Estate Partners II” (PREP II) is a real estate fund formed to invest in core-plus value-add real estate assets in Asian Pacific region targeting mainly Japan and South Korea. The Fund's commitment to PREP II fund is USD 100,000 thousand. As of 31 December 2019 value of Fund's investment in PREP II was 90,289 AZN thousand

(2018: AZN 15,891 thousand).

“GreenOak US III” (GreenOak) is a value-add investment fund formed to invest in North America. The Fund's commitment to GreenOak is USD 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in GreenOak was AZN 46,765 thousand (2018: AZN 19,401 thousand).

The Fund made a co-investment into a mixed-use property with a development strategy with “PGIM European Value Partners” (Junghof) fund located in Frankfurt, Germany. The Fund's commitment with regard to this investment is EUR 40,632 thousand. As of 31 December 2019 the fair value of the Fund's share in this co-investment was AZN 99,330 thousand (2018: AZN 96,540 thousand).

The Fund made a co-investment into a core-plus office property with “Gaw Capital GREF V” (Reine GK) in Yokohama, Japan. The Fund's commitment with regard to this investment is USD 20,000 thousand. As of 31 December 2019 the fair value of Fund's share in this co-investment was AZN 58,192 thousand (2018: AZN 66,083).

The Fund made a co-investment into an opportunistic hotel development with “PGIM Asia Property Fund III” (GK Winchester) in Kyoto, Japan. The Fund's commitment with regard to this investment is JPY 2,134,000 thousand. As of 31 December 2019 the fair value of Fund's share in this co-investment was AZN 46,136 thousand (2018: AZN 45,762 thousand).

The Fund made a co-investment in an office property with “Blackrock Europe Property Fund IV Feeder” (Kustermann) in Munich, Germany. The Fund's commitment with regard to this investment is EUR 6,333 thousand. As of 31 December 2019 the fair value of Fund's share in this co-investment was AZN 307 thousand (2018: AZN 19,906 thousand).

The Fund has made a mixed-use co-investment with “Walton Street Real Estate Fund VIII” (Walton NMA VIII) in Chicago, USA. The Fund's commitment with regard to this investment is USD 25,000 thousand. As of 31 December 2019 the fair value of Fund's share in this co-investment was AZN 23,166 thousand (2018: AZN 37,197 thousand).

The Fund made a development logistics portfolio co-investment with “GAW Capital GREF V” (Centurion II) in China. The Fund's commitment with regard to this investment is USD 60,000 thousand. As of 31 December 2019 the fair value of Fund's share in this co-investment was AZN 43,599 thousand (2018: AZN 18,696 thousand).

The Fund made a value-add retail portfolio co-investment with “GAW Capital GREF V” (Doris) in Hong Kong. The Fund's commitment with regard to this investment is

USD 50,000 thousand. As of 31 December 2019 the fair value of Fund's share in this co-investment was AZN 99,104 thousand (2018: AZN 88,543 thousand).

“Blackstone Real Estate Partners Europe VI” (BREP Europe VI) is an opportunistic real estate fund and makes investments mostly in United Kingdom, Germany, Spain and Italy. The Fund's commitment to BREP Europe VI fund is EUR 150,000 thousand. As of 31 December 2019 the fair value of Fund's investment in BREP Europe VI was AZN 8,516 thousand (2018: nil).

“Blackstone Property Partners U.S.” (BPP U.S.) is a core-plus investment fund formed to invest in North America. The Fund's commitment to BPP U.S. fund is USD 200,000 thousand. As of 31 December 2019 the fair value of Fund's investment in BPP U.S. was AZN 340,000 thousand (2018: nil).

“Fonciere LFPI Europe” (FLE) fund was established in 2005. Fund makes core to core-plus commercial real estate investments in Europe and USA. The Fund's commitment in FLE is EUR 100,000 thousand as a Limited Partner. As of 31 December 2019 the fair value of Fund's investment in FLE was AZN 193,473 thousand (2018: nil).

“Gaw Capital Gateway Real Estate Fund VI” (GREF VI) was established in 2018 and makes commercial real estate investments in the Asia-Pacific region. The Fund's commitment in GREF VI is USD 50,000 thousand as a Limited Partner. As of 31 December 2019 the fair value of Fund's investment in GREF VI was AZN 31,508 thousand (2018: nil).

The Fund reached an agreement with “GAW Capital US Fund III” (H&H Retail) in 2019 to make a co-investment into a retail asset located in Los Angeles. The Fund's equity portion in the co-investment is USD 50,000 thousand. As of 31 December 2019 the fair value of Fund's share in this co-investment was AZN 85,000 thousand (2018: nil).

“PGIM European Value Partners II” (EVP II) is a real estate fund formed to acquire real estate assets in the Eurozone and UK, targeting mainly France, Germany, Italy, Spain and major cities in UK with a value-add investment profile. The Fund's commitment to EVP II fund is EUR 100,000 thousand. As of 31 December 2019 the fair value of Fund's investment in EVP II was AZN 30,770 thousand (2018: nil).

Equity securities. The carrying value of equity investments consists of investments in the following sectors at 31 December 2019 and 2018:

In thousands of Azerbaijani Manats	2019	2018
Finance	2,008,941	1,540,246
Consumer	1,579,207	1,269,618
Telecommunication and information technologies	1,658,757	1,180,019
Industrial	742,331	553,239
Healthcare	1,014,436	805,766
Energy	361,260	333,706
Materials	393,596	324,617
Utilities	277,865	222,541
Total equity securities	8,036,393	6,229,752

These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, SSGA, UBS Asset Management (UK) LTD, Blackrock Investment Management, Mellon Capital Management Corporation and Sumitomo Mitsui Trust International LTD.

FVTPL assets are carried at fair value which also reflects any credit risk related write-downs. Therefore, the Fund does not analyse or monitor impairment indicators.

Analysis by credit quality of debt trading securities is as follows at 31 December 2019:

In thousands of Azerbaijani Manats	Agency/Supranational Bonds	Corporate Bonds	Sovereign Bonds	Money Market	Total
<i>Neither past due nor impaired (at fair value)</i>					
AAA	6,677,835	616,510	8,266,609	-	15,560,954
AA	1,634,410	2,186,774	656,401	168,852	4,646,437
A	975,204	7,897,721	962,979	401,650	10,237,554
BBB	6,186	5,417,770	1,957,597	571,103	7,952,656
BB	-	7,644,475	-	-	7,644,475
B	-	1,436,610	585,603	-	2,022,213
D	-	913	-	-	913
Total neither past due nor impaired	9,293,635	25,200,773	12,429,189	1,141,605	48,065,202
Total debt trading securities	9,293,635	25,200,773	12,429,189	1,141,605	48,065,202

Analysis by credit quality of debt trading securities is as follows at 31 December 2018:

In thousands of Azerbaijani Manats	Agency/Supranational Bonds	Corporate Bonds	Sovereign Bonds	Money Market	Total
<i>Neither past due nor impaired (at fair value)</i>					
AAA	8,716,172	637,696	771,830	853,296	10,978,994
AA	2,817,198	2,829,308	174,590	674,836	6,495,932
A	1,435,871	11,404,024	905,617	2,445,253	16,190,765
BBB	112,983	7,029,145	465,111	96,846	7,704,085
BB	-	5,450,817	598,500	-	6,049,317
B	-	1,432,592	-	-	1,432,592
D	-	3,377	-	-	3,377
Total neither past due nor impaired	13,082,224	28,786,959	2,915,648	4,070,231	48,855,062
Total debt trading securities	13,082,224	28,786,959	2,915,648	4,070,231	48,855,062

The credit ratings are based on Standard & Poor's ratings where available, or Moody's or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale. The debt securities are not collateralised.

9. Gold Bullion

In accordance with the “Rules on Holding, Placement and Management of Foreign Assets of The State Oil Fund of the Republic of Azerbaijan” approved by Decree #511 of the President of the Republic of Azerbaijan dated 19 June 2001 as amended by Decrees #607 dated 21 December 2001, #202 dated 1 March 2005, #216 dated 10 February 2010 and #519 dated 27 October 2011, gold bars conforming to the requirements of the London Bullion Market Association may be included in the Investment Portfolio of the Fund.

Movements of gold bullion:

In thousands of Azerbaijani Manats	2019	2018
Opening balance at 1 January	3,558,246	2,137,212
Additions	3,628,327	1,388,537
Net fair value gain on gold bullions	1,194,590	32,497
Closing balance at 31 December	8,381,163	3,558,246

10. Investment Properties

Movement of investment properties:

In thousands of Azerbaijani Manats	2019	2018
Investment properties at fair value at 1 January	2,584,684	2,763,757
Additions	10,093	6,863
Disposals	(213,099)	-
Right-of-use asset	78,245	-
Fair value gains/(losses)	64,971	(108,674)
Effect of translation to presentation currency	(7,675)	(77,262)
Investment properties at fair value at 31 December	2,517,219	2,584,684

Investment properties consist of “Gallery Actor”, a mixed-use office and retail complex located in Moscow Central Administrative District at 16 Tverskaya Street, “78 St James's Street” an office complex located in London, "8 Place Vendome" a mixed-use office, retail and residential building located in Paris, "Pine Avenue Tower A" office complex located in Seoul and “Kirarito Ginza” retail complex located in Tokyo. All properties are leased out on a commercial basis.

As at 31 December 2019 investment properties are stated at fair value, which has been determined based on valuations performed by professional valuation companies (accredited independent appraisers). Appraisers are recognized industry professionals that specialize in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The fair values of the properties have been primarily derived using prices for comparable properties, market information, discounted cash flow method (income approach) and the expert opinion of independent accredited valuers who have advised on current market levels.

At 31 December 2019, investment property carried at AZN 1,736,537 thousand (2018: AZN 1,681,450 thousand) have been pledged to third parties as collateral with respect to borrowings. Refer to Note 13.

Where the Fund is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

In thousands of Azerbaijani Manats	2019	2018
Not later than 1 year	56,824	78,349
Later than 1 year and not later than 5 years	132,983	220,947
Later than 5 years	2,019	43,363
Total operating lease payments receivable at 31 December	191,826	342,659

Detailed disclosure on fair value change of investment properties:

Investment property	Fair value 2019	Change in fair value	Effect of translation to presentation currency	Additions	Disposals	Right-of-use asset	Fair value 2018
"78 St James Street", London	329,795	(16,041)	8,849	8,208	-	70,431	258,348
"Gallery Actor", Moscow	91,358	1,139	9,552	575	-	-	80,092
"SCI 8 Place Vendome", Paris	359,529	4,361	(8,056)	896	-	-	362,328
"Pine Avenue Tower A", Seoul	819,378	61,114	(25,812)	-	-	-	784,076
"Kirarito Ginza", Tokyo	917,159	(823)	12,381	414	-	7,814	897,373
"Palazzo Turati", Milan	-	15,221	(4,589)	-	(213,099)	-	202,467
	2,517,219	64,971	(7,675)	10,093	(213,099)	78,245	2,584,684

Investment property	Fair value 2018	Change in fair value	Effect of translation to presentation currency	Additions	Fair value 2017
"78 St James Street", London	258,348	(162,885)	(17,635)	4,129	434,739
"Gallery Actor", Moscow	80,092	(4,026)	(16,641)	577	100,182
"SCI 8 Place Vendome", Paris	362,328	9,912	(15,481)	1,356	366,541
"Pine Avenue Tower A", Seoul	784,076	24,913	(35,339)	-	794,502
"Kirarito Ginza", Tokyo	897,373	14,582	16,455	801	865,535
"Palazzo Turati", Milan	202,467	8,830	(8,621)	-	202,258
	2,584,684	(108,674)	(77,262)	6,863	2,763,757

Establishment of 78 St James's Street Unit Trust (the "Unit Trust")

The Unit Trust was established by the Fund on 22 November 2012 under the provision of the Trust Instrument. SOFAZ RE Limited in its capacity as general partner of the SOFAZ RE UK L.P. has a 99% holding of the Unit Trust. SOFAZ RE Min Limited has a 1% holding of the Unit Trust. SOFAZ RE Limited, SOFAZ RE UK L.P. and SOFAZ RE Min Limited are ultimately owned by the State Oil Fund of Azerbaijan. The Unit Trust invests in real estate located in the United Kingdom and owns the office complex "78 St James's Street". The Unit Trust is established, resident and domiciled in Jersey, Channel Islands. During 2019, the Unit Trust has not contributed rental income due to the refurbishment of the office complex (2018: AZN 93,978 thousand) and contributed AZN 19,689 thousand loss (2018: AZN 72,681 thousand loss) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value decrease of AZN 16,041 thousand (2018:AZN 162,885 thousand decrease)).

Acquisition of JSC Tverskaya 16

On 21 December 2012, SOFAZ acquired 100% of voting shares of JSC Tverskaya 16. Its main activity is management of the business and retail centre "Gallery Actor" located in the Central Administrative District of Moscow, Russia. During 2019, JSC Tverskaya 16 contributed AZN 8,300 thousand (2018: AZN 8,764 thousand) of rental income and AZN 4,600 thousand profit (2018: AZN 815 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 1,139 thousand (2018: decrease AZN 4,026 thousand)).

Establishment of SCI 8 Place Vendome

On 19 March 2013, the Fund acquired via a special purpose vehicle, a mixed use office, retail and residential complex SCI 8 Place Vendome located on Place Vendome 8, Paris, France from AXA Real Estate for EUR 135,000 thousand. SCI 8 Place Vendome is an indirect subsidiary of the Fund incorporated in France as a civil partnership having its registered office in Paris, 6 place de Madeleine. SCI 8 Place Vendome is held by the Fund via two Luxembourg holding companies (the Luxcos): SOFAZ RE Fund S.a.r.l. - a private limited company with a share capital of EUR 12,500 having its registered office in Luxembourg which is 100% held by SOFAZ RE Europe Holding S.a.r.l. and holds 0.1% of SCI 8 Place Vendome and SOFAZ RE Europe S.a.r.l. - a private limited company with a share capital of EUR 12,500 having its registered office in Luxembourg which is 100% held by SOFAZ RE Europe Holding S.a.r.l. and holding 99.9% of SCI 8 Place Vendome. During 2019, SCI 8 Place Vendome has contributed AZN 10,503 thousand (2018: AZN 10,701 thousand) of rental income and AZN 8,850 thousand profit (2018: 14,645 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 4,361 thousand (2018: AZN 9,912 thousand increase)).

Acquisition of Pine Avenue Tower A office complex

On 31 March 2014 SOFAZ finalised the acquisition of a prime office complex, Pine Avenue Tower A in Seoul, South Korea via the acquisition of 100% interest in Beneficiary Certificates ("BCs") in Real Estate Fund from Mirae Asset Management for KRW 469,007 million (AZN 346,250 thousand). During 2019, "Pine Avenue Tower A" has contributed AZN 24,337 thousand (2018: AZN 20,886 thousand) of rental income and AZN 71,930 thousand profit (2018: AZN 38,775 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 61,114 thousand (2018: AZN 24,913 thousand increase)).

Establishment of Kirarito Ginza

SOFAZ made an investment in the amount of 51,989 million JPY (AZN 455,736 thousand) to an operator entity ("OE") under a Tokumei Kumiai ("TK") agreement on 21 August 2015. This investment formed 98% of the capital of the OE. 2% is held by the Asset Managers ("AM"), PGIM Real Estate (Japan). SOFAZ is free to sell this investment (right to cashflows) in the OE at any time. The OE invested proceeds from investors in an investment property, a retail complex in Ginza, Tokyo, for 52,434 million JPY (AZN 459,633 thousand), including investment-related acquisition costs. For detailed information, refer to the Note 25.

During 2019, "Kirarito Ginza" has contributed AZN 25,196 thousand (2018: AZN 23,081 thousand) of rental income and AZN 18,927 thousand profit (2018: AZN 24,498 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value decrease of AZN 823 thousand (2018: AZN 14,582 thousand increase)).

Establishment of Palazzo Turati

In May 2016, the Fund has reached an agreement to acquire Palazzo Turati, an office property in Milan for EUR 97 million. For this investment the Fund established the 100% controlled Real Estate Investment Fund (REIF) that acquired the property. The Fund invested into the REIF through its Luxembourg subsidiary - SOFAZ RE Europe S.a.r.l. The property was disposed of on 23 July 2019. Until the disposal date, Palazzo Turati contributed AZN 7,389 thousand (2018: AZN 9,827 thousand) of rental income and AZN 19,874 thousand profit (2018: AZN 17,203 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 15,221 thousand (2018: AZN 8,830 thousand increase)).

11. Investments in Joint Ventures

The table below summarises the movements in the carrying amount of the Fund's investments in joint ventures.

In thousands of Azerbaijani Manats	2019	2018
Carrying amount at 1 January	1,167,214	979,598
Additions to investments in joint venture	-	151,646
Capital repayment from joint venture	(76,500)	-
Share of after tax results of joint venture	(22,056)	38,887
Dividends received from joint venture	(19,053)	-
Loss from FX translation recognised in OCI	(2,406)	(2,917)
Carrying amount at 31 December	1,047,199	1,167,214

On 21 June 2013, Caspian Drilling Company (90% share) and SOCAR (10% share) jointly established “SOCAR Rig Assets” LLC with the share capital of AZN 1000 (100 shares, nominal value of AZN 10 for each share). The main activity of the entity is financing the construction of a new sixth generation semi-submersible drilling rig for operations in the Caspian Sea through funding from the shareholders' proportion of their respective shares. On 5 July 2013, SOFAZ acquired all of the shares of "SOCAR Rig Assets" LLC from Caspian Drilling Company for their nominal value. “SOCAR Rig Assets” LLC did not have any operations prior to acquisition by the Fund. After acquisition “SOCAR Rig Assets” LLC was renamed “Azerbaijan Rigs” LLC. No additional paid-in capital was contributed during 2019 (2018: nil). All strategic financial and operating decisions relating to the activity of the acquiree require the unanimous consent of both shareholding parties. The results of this joint venture are incorporated in these consolidated financial statements using the equity method of accounting.

Capitals Property S.a.r.l was established by Capitals Holding S.a.r.l on 29 January 2018 as a private limited liability company governed by the laws of the Grand Duchy of Luxembourg. When it was established, SOFAZ R.E Fund S.a.r.l and Capitals Holding S.a.r.l each held 50% of the share capital of the LLC in the amount of EUR 12,000 (12,000 shares with the nominal value of EUR 1 for each). On 21 September 2018 Capitals Holding S.a.r.l transferred 2,400 shares and SOFAZ R.E Fund S.a.r.l transferred 1,200 shares to Mainz International Holdings S.a.r.l. As a result the shareholder holdings are as follows: SOFAZ RE Fund S.a.r.l 40% ownership (4,800 shares), Capitals Holding S.a.r.l 30% ownership (3,600 shares), Mainz International Holdings S.a.r.l 30% ownership (3,600 shares). The main activity of the entity is real estate business through funding from the shareholders' proportion of their respective shares and bank loan. No additional paid-in capital was contributed during 2019 (2018: AZN 151,646 thousand). All strategic financial and operating decisions relating to the activity of the acquiree require the unanimous consent of all shareholding parties. The results of this joint venture are incorporated in these consolidated financial statements using the equity method of accounting.

At 31 December 2019, the Fund's interests in its joint ventures and its summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Other income	Expenses	Profit/(loss)	% interest held	Country of incorporation
“Azerbaijan Rigs” LLC	84,127	939,116	(9,144)	(18,820)	97,872	255	(124,342)	(26,215)	90%	Azerbaijan
"Capitals Property SARL" LLC	52,655	952,421	(3,126)	(629,343)	37,338	1,230	(34,724)	3,844	40%	Luxembourg

At 31 December 2018, the Fund's interests in its joint venture and its summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Other income	Expenses	Profit/(loss)	% interest held	Country of incorporation
“Azerbaijan Rigs” LLC	113,803	1,029,247	(7,514)	(7,872)	88,874	537	(50,189)	39,222	90%	Azerbaijan
"Capitals Property SARL" LLC	39,079	993,048	(4,051)	(647,287)	30,785	635	(22,453)	8,967	40%	Luxembourg

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint ventures is as follows:

	“Azerbaijan Rigs” LLC		"Capitals Property SARL" LLC	
	2019	2018	2019	2018
Opening net assets	1,127,664	1,088,442	380,789	-
Capital increase	-	-	-	371,822
Profit/(loss) for the period	(26,215)	39,222	3,844	8,967
Dividends paid	(21,170)	-	-	-
Decrease in charter capital	(85,000)	-	-	-
Translation to presentation currency	-	-	(6,013)	-
Closing net assets	995,279	1,127,664	378,620	380,789
Fund's share in %	90%	90%	40%	40%
Fund's share in amount	895,751	1,014,898	151,448	152,316
Carrying amount of investment	895,751	1,014,898	151,448	152,316

12. Capital Contributions

The movements in capital contributions to the Fund were as follows:

In thousands of Azerbaijani Manats	2019	2018
Contributions received from sales of oil and gas	14,614,709	16,645,569
Bonuses	766,351	765,228
Pipeline transit tariffs	18,938	18,103
Acreage fees	4,692	4,147
Other	-	20
Total capital contributions	15,404,690	17,433,067

13. Non-Current Liabilities

In thousands of Azerbaijani Manats	2019	2018
Term loan Godo Kaisha (GK001 - Tokyo, Japan)	487,066	479,681
Term loan MAPS 21 (Mirae Asset Securities)	441,000	456,300
Tenancy deposits	49,302	48,414
Deferred tax liabilities	15,894	13,780
Lease liabilities	77,792	-
Total non-current liabilities	1,071,054	998,175

Tenancy deposits comprise of prepayments made by tenants for Kirarito Ginza, the investment property in Tokyo with the amount of AZN 20,307 thousand (2018: AZN 20,228 thousand), Pine Avenue Tower A, the investment property in Seoul with the amount of AZN 26,792 thousand (2018: AZN 26,434 thousand) and SCI 8 Place Vendome, the investment property in Paris with the amount of AZN 2,204 thousand (2018: AZN 1,751 thousand).

The term loan comprises of borrowing by Godo Kaisha GK001 (Kirarito Ginza), denominated in Japanese Yen and borrowing by MAPS 21 (Pine Avenue Tower A), denominated in Korean Won. Bank borrowings by Godo Kaisha GK001 mature by 09 September 2024 and bear coupon of 0.81% annually (2018: 0.81%). An investment property is pledged as collateral for the borrowing. Borrowings by MAPS 21 mature by June 2023 and bear coupon of 3.6% (2018: 3.6%) annually. An investment property is pledged as collateral for the borrowing. Please refer to Note 10.

The Fund does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 0.81% (2018: 0.81%) for Godo Kaisha GK001 and 3.6% (2018: 3.6%) for MAPS 21. The fair values are within level 2 of the fair value hierarchy.

Reconciliation of liabilities arising from financing activities

The table below sets out an analysis of liabilities from financing activities and the movements in the Fund'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:

	Liabilities from financing activities
	Borrowing
Liabilities from financing activities at 1 January 2018	469,979
Cash flows	456,300
Foreign exchange adjustments	9,702
Liabilities from financing activities at 31 December 2018	935,981
Foreign exchange adjustments	(7,915)
Liabilities from financing activities at 31 December 2019	928,066

14. Interest Income from Financial Assets at Fair Value Through Profit or Loss

In thousands of Azerbaijani Manats	2019	2018
Government securities	124,380	60,193
Agency securities	260,072	233,421
Corporate securities	538,086	546,902
Total interest income	922,538	840,516

15. Foreign Currency Translation Differences

Net foreign currency translation differences comprise of:

In thousands of Azerbaijani Manats	2019	2018
Net unrealized loss on foreign currency translation differences	(496,576)	(1,375,080)
Net realized loss on foreign currency translation differences	(27,691)	(36,157)
Total net loss on foreign currency translation differences	(524,267)	(1,411,237)

16. Net Fair Value Gain/(Loss) on Financial Assets at Fair Value Through Profit or Loss

Net gain on financial assets at fair value through profit or loss comprises:

In thousands of Azerbaijani Manats	2019	2018
Unrealized gain/(loss) on change in fair value adjustment	2,164,974	(999,149)
Realized gain on trading operations	80,317	151,640
Net gain/(loss) on financial assets at fair value through profit or loss	2,245,291	(847,509)

17. Operating Expenses

Operating expenses are comprised of:

In thousands of Azerbaijani Manats	2019	2018
Asset management fee	2,850	2,887
Operating expenses of subsidiaries	73,281	54,779
Wages, salaries and employee benefits	6,755	6,813
SSPF contributions	1,447	1,423
Bank services	2,687	2,575
Depreciation and amortization	6,226	8,478
Short-term license fee	3,865	4,735
Communication expenses	61	86
Other operating expenses	6,265	21,737
Total operating expenses	103,437	103,513

18. Transfers by the Fund

During 2019 transfers to the State Budget, as well as to the state institutions, state-owned entities and companies were made in accordance with:

- The Decree #449 of the President of the Republic of Azerbaijan dated 28 December 2018 on the Approval of the Budget of the State Oil Fund of the Republic of Azerbaijan for 2019.

During 2018 transfers to the State Budget, as well as to the state institutions, state-owned entities and companies were made in accordance with:

- The Decree #1770 of the President of the Republic of Azerbaijan dated 28 December 2017 on the Approval of the Budget of the State Oil Fund of the Republic of Azerbaijan for 2018.
- Decree #209 of the President of the Republic of Azerbaijan dated 17 July 2018 on making amendments to the Decree #1770 of the President of the Republic of Azerbaijan dated 28 December 2017 on the Budget of the State Oil Fund of the Republic of Azerbaijan for 2018.

19. Income Taxes

The Fund provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Russian Federation, Luxembourg, Japan and France.

According to the Presidential Decree №- 509-IVQD dated 21 December 2012, and law of State Parliament regarding changes to the Tax Code of Azerbaijan Republic dated 29 December 2012 starting from 1 January 2013 SOFAZ is exempted from corporate income tax. All the Jersey companies are zero corporate income tax rated by virtue of being International Service Entities. As a result there are no temporary differences in respect of SOFAZ's Azerbaijani and UK operations. According to double taxation treaty with Japan, gains from Tokumei Kumiai investments is exempt from taxation in this country. South Korea subsidiary is also exempt from taxes for the income generated from operations of its assets. It is only obliged for tax withholding when distributing earnings to unitholders.

Standard corporate income tax rates for companies operating in the Russian Federation comprised 20% for 2019 and 2018. Whereas Luxembourg and French subsidiaries are subject to income tax at a rate of 17% (2018: 17%) and 33.33% (2018: 33.33%), respectively. Japan subsidiary is subject to income tax of 34.59% (2018: 34.59%).

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

20. 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.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In thousands of Azerbaijani Manats	31 December 2019				31 December 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial Assets								
<i>Financial assets at fair value through profit or loss</i>	48,492,532	7,609,063	3,510,925	59,612,520	49,633,997	5,450,817	2,253,461	57,338,275
- Agency/Supranational bonds	9,293,635	-	-	9,293,635	13,082,224	-	-	13,082,224
- Corporate bonds	17,591,710	7,609,063	-	25,200,773	23,336,142	5,450,817	-	28,786,959
- Sovereign bonds	12,429,189	-	-	12,429,189	2,915,648	-	-	2,915,648
- Private Equity Funds	-	-	902,260	902,260	-	-	641,363	641,363
- Real Estate Funds	-	-	2,608,665	2,608,665	-	-	1,612,098	1,612,098
- Equity securities	8,036,393	-	-	8,036,393	6,229,752	-	-	6,229,752
- Money Market	1,141,605	-	-	1,141,605	4,070,231	-	-	4,070,231
Non-financial Assets	8,381,163	-	2,517,219	10,898,382	3,558,246	-	2,584,684	6,142,930
- Investment properties	-	-	2,517,219	2,517,219	-	-	2,584,684	2,584,684
- Gold bullions	8,381,163	-	-	8,381,163	3,558,246	-	-	3,558,246
Total assets recurring fair value measurements	56,873,695	7,609,063	6,028,144	70,510,902	53,192,243	5,450,817	4,838,145	63,481,205

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2019 and 31 December 2018:

In thousands of Azerbaijani Manats	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
FINANCIAL ASSETS			
2019			
- Corporate bonds	7,609,063	DCF	Government bonds yield curve
2018			
- Corporate bonds	5,450,817	DCF	Government bonds yield curve

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2019:

In thousands of Azerbaijani Manats	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets at fair value						
Non-financial assets						
<i>Investment properties</i>						
"78 St James Street", London	329,795	Residual appraisal approach	Net rental value	AZN 21,955 thousand	+/- 5%	18,411/ (18,411)
"Gallery Actor", Moscow	91,358	Discounted cash flows	Target rate of return	12%	+/- 1%	(3,239)/ 3,406
"SCI 8 Place Vendome", Paris	359,529	Income capitalisation method, Discounted cash flows, Direct comparison method	Market yield	3,5-4,5%	+/- 0,5%	(77,021)/ 30,676
"Pine Avenue Tower A", Seoul	819,378	Discounted cash flows, Comparison method	Target rate of return/ Transaction case price	4,6-4,8%, AZN 11,760-12,936 per sq.m	+/- 0,25%, +/- 5%	(15,950)/ 17,640, (20,654)/ 20,654
"Kirarito Ginza", Tokyo	917,159	Income capitalisation method	Market yield	2,4%	+/- 0,1%	(32,351)/ 35,432
Total recurring fair value measurements at level 3	2,517,219					

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2018:

In thousands of Azerbaijani Manats	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets at fair value						
Non-financial assets						
<i>Investment properties</i>						
"78 St James Street", London	258,348	Residual appraisal approach	Net rental value	AZN 18,137 thousand	+/- 5%	19,604/ (18,623)
"Gallery Actor", Moscow	80,092	Discounted cash flows	Target rate of return	12-15%	+/- 1%	(2,889)/ 3,031
"SCI 8 Place Vendome", Paris	362,328	Income capitalisation method, Discounted cash flows, Direct comparison method	Market yield	3,5-4,5%	+/- 0,5%	(33,942)/ 49,596
"Pine Avenue Tower A", Seoul	784,076	Discounted cash flows, Comparison method	Target rate of return/ Transaction case price	5-5,3%, AZN 10,951-12,624 per sq.m	+/- 0,25%, +/- 5%	(14,213)/ 15,651, 18,764/ 18,685
"Kirarito Ginza", Tokyo	897,373	Income capitalisation method	Market yield	2,4%	+/- 0,1%	(32,351)/ 35,432
"Palazzo Turati", Milan	202,467	Discounted cash flows	WACC and GOCR	5,01-4,07%	+/- 0,25%	(389)/389
Total recurring fair value measurements at level 3	2,584,684					

For investments in private equity and real estate funds, increases in the EBITDA multiple would each lead to an increase in estimated value. However, an increase in the discount for lack of marketability would lead to a decrease in value. No interrelationships between unobservable inputs used in the Fund's valuation of its Level 3 fund investments have been identified.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2019 is as follows:

In thousands of Azerbaijani Manats	Securities at FVTPL Corporate shares
Fair value at 1 January 2019	2,253,461
Gains recognised in profit or loss for the year	46,464
Loss recognised in other comprehensive income	(36,388)
Purchases	1,247,388
Fair value at 31 December 2019	3,510,925

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2018 is as follows:

In thousands of Azerbaijani Manats	Securities at FVTPL Corporate shares
Fair value at 1 January 2018	1,440,247
Gains recognised in profit or loss for the year	165,375
Loss recognised in other comprehensive income	(63,077)
Purchases	710,916
Fair value at 31 December 2018	2,253,461

b) 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 carrying value of assets not measured at fair value are as follows:

In thousands of Azerbaijani Manats	31 December 2019				31 December 2018			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value

Assets

Other financial assets

- Trade receivables	-	4,283	-	4,283	-	4,382	-	4,382
- Term deposits	-	7,577	-	7,577	-	-	-	-

Total Assets	-	11,860	-	11,860	-	4,382	-	4,382
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Liabilities

Other borrowed funds

- Term loan	-	928,066	-	928,066	-	935,981	-	935,981
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Other financial liabilities

- Trade payables	-	17,762	-	17,762	-	16,154	-	16,154
- Lease liabilities	-	77,792	-	77,792	-	-	-	-

Total Liabilities	-	1,023,620	-	1,023,620	-	952,135	-	952,135
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The fair values in level 2 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

21. 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 or subsequently.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

In thousands of Azerbaijani Manats	FVTPL (mandatory)	AC	Total
ASSETS			
Cash and cash equivalents			2,590,446
- Money market funds	1,429,032	-	1,429,032
- Bank accounts	-	1,160,617	1,160,617
- Short-term deposits	-	797	797
FVTPL assets			59,612,520
- Agency/Supranational bonds	9,293,635	-	9,293,635
- Corporate bonds	25,200,773	-	25,200,773
- Sovereign bonds	12,429,189	-	12,429,189
- Money market	1,141,605	-	1,141,605
- Private Equity Funds	902,260	-	902,260
- Real Estate Funds	2,608,665	-	2,608,665
- Equity securities	8,036,393	-	8,036,393
Other financial assets			11,860
-Other	-	11,860	11,860
TOTAL FINANCIAL ASSETS	61,041,552	1,173,274	62,214,826

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

In thousands of Azerbaijani Manats	FVTPL (mandatory)	AC	Total
ASSETS			
Cash and cash equivalents	-		1,264,588
- Short-term deposits	-	4,437	4,437
- Money market funds	553,139	-	553,139
- Bank accounts	-	707,012	707,012
FVTPL assets	-	-	57,338,275
- Agency/Supranational bonds	13,082,224	-	13,082,224
- Corporate bonds	28,786,959	-	28,786,959
- Sovereign bonds	2,915,648	-	2,915,648
- Money market	4,070,231	-	4,070,231
- Private Equity Funds	641,363	-	641,363
- Real Estate Funds	1,612,098	-	1,612,098
- Equity securities	6,229,752	-	6,229,752
Other financial assets	-	-	4,382
-Other	-	4,382	4,382
TOTAL FINANCIAL ASSETS	57,891,414	715,831	58,607,245

As of 31 December 2019 and 31 December 2018, all of the Fund's financial liabilities were carried at AC.

22. Financial Risk Management

Management of risk is an essential element of the Fund's operations. Risks inherent to the Fund's operations are those related to credit exposures, liquidity, market and operational risks. A summary description of the Fund's risk management policies in relation to those risks is discussed below.

Credit risk. The Fund is exposed 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 discharge an obligation. The Fund is subject to credit risk from its portfolio of cash and cash equivalents and its investments. The Fund manages its credit risk in accordance with the "Rules on Holding, Placement and Management of Foreign Currency Assets of The State Oil Fund of the Republic of Azerbaijan" approved by Decree #511 of the President of the Republic of Azerbaijan dated 19 June 2001 as amended by Decree #607 dated 21 December 2001, Decree #202 dated 1 March 2005, Decree #216 dated 10 February 2010, Decree #519 dated 27 October 2011 (hereinafter collectively referred to as the "Rules").

Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount of investment per investment asset.

The following table details the credit ratings of financial instruments held by the Fund. The credit rating is issued by internationally regarded agencies Standard & Poor's, Fitch and Moody's. If the agencies have assigned different credit ratings to an asset, the lowest one was used.

2019	AAA	AA	A	BBB	BB	B	D	Total
Cash and cash equivalents*	1,429,032	4,446	557,992	593,499	-	4,505	-	2,589,474
Financial assets at fair value through profit or loss**	15,560,954	4,646,437	10,237,554	7,952,656	7,644,475	2,022,213	913	48,065,202

* AZN 972 thousand – bank account at Central Bank of the Republic of Azerbaijan was excluded as Central Banks do not have credit rating

** Equity securities in the amount of AZN 8,036 million and investments in Real Estate and Private Equity Funds in the amount of AZN 3,511 millions are excluded from this table. The Fund has investment strategies for investments in Real Estate and Private Equity funds. The Fund performs comprehensive review process where assesses the investment experience of the funds, opinions of shareholders in the previous investments of General Partner, knowledge and experience of staff, financial facilities used in fund's organization and cash flow management and evaluates them by 10 points scale. As of 31 December 2019, the scores awarded for Real Estate and Private Equity funds are in the range of 8-9 and 7-8, respectively.

2018	AAA	AA	A	BBB	BB	B	D	Total
Cash and cash equivalents	553,139	5,560	151,933	550,050	1,661	1,425	-	1,263,768
Financial assets at fair value through profit or loss	10,978,994	6,495,932	16,190,765	7,704,085	6,049,317	1,432,592	3,377	48,855,062

Equity securities portfolio represent a passive replication of broad indices (MSCI World, MSCI Europe ex UK, S&P 100), where the Fund relies on Tracking Error metrics. Ex-ante tracking error limits are established at the level of 30 bps on an annual basis.

The Fund also reports on such market risk metrics as Standard deviation, Value at Risk (VaR), Beta in its internal reports.

External managers. In accordance with the “Rules”, when an external manager is engaged in management of the Fund’s currency assets, the external manager or its principal founder should have investment credit ratings (not lower than Baa3 (Moody’s) or BBB- (Standard & Poor’s, Fitch)) or have at least five years of positive history of management of assets, or be experienced in managing assets with a value not less than one billion USD.

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Currency risk is managed according to the currency allocation set in Investment Policy, which states firm weights for specific currencies. Apart from that according to Investment Guidelines the Fund has a discretion of using currency derivatives for hedging purposes. Currency rebalancing is implemented quarterly in line with internal procedures. Currency allocation is implemented in the multi-asset and diversified Fund investment portfolio context.

The table below summarizes the Fund’s exposure to foreign currency exchange rate risk for the year ended 31 December 2019:

2019	AZN	USD	EUR	GBP	TRY	AUD	RUB	Other	Total
Financial assets									
Cash and cash equivalents	1,010	1,980,627	340,082	210,650	4,434	2,108	398	51,137	2,590,446
Financial Assets at Fair Value Through Profit or Loss	-	29,911,197	22,261,867	3,267,653	585,602	407,745	480,631	2,697,825	59,612,520
Other financial assets	-	-	-	2,631	-	-	8,917	312	11,860
Total financial assets	1,010	31,891,824	22,601,949	3,480,934	590,036	409,853	489,946	2,749,274	62,214,826
Financial liabilities									
Borrowings	-	-	-	-	-	-	-	(928,066)	(928,066)
Other financial liabilities	(1,202)	-	(4,246)	(309)	-	-	(1,097)	(10,908)	(17,762)
Lease liabilities	-	-	-	(70,386)	-	-	-	(7,406)	(77,792)
Total financial liabilities	(1,202)	-	(4,246)	(70,695)	-	-	(1,097)	(946,380)	(1,023,620)
Open position	(192)	31,891,824	22,597,703	3,410,239	590,036	409,853	488,849	1,802,894	61,191,206

The table below summarizes the Fund’s exposure to foreign currency exchange rate risk for the year ended 31 December 2018:

2018	AZN	USD	EUR	GBP	TRY	AUD	RUB	Other	Total
Financial assets									
Cash and cash equivalents	895	946,368	156,640	104,004	1,313	5,899	2,543	46,926	1,264,588
Financial Assets at Fair Value Through Profit or Loss	-	29,528,796	21,657,260	2,646,222	524,211	380,231	316,871	2,284,684	57,338,275
Other financial assets	-	-	-	1,783	-	-	1,379	1,220	4,382
Total financial assets	895	30,475,164	21,813,900	2,752,009	525,524	386,130	320,793	2,332,830	58,607,245
Financial liabilities									
Borrowings	-	-	-	-	-	-	-	(935,981)	(935,981)
Other financial liabilities	(1,320)	-	(2,805)	(71)	-	-	(501)	(11,457)	(16,154)
Total financial liabilities	(1,320)	-	(2,805)	(71)	-	-	(501)	(947,438)	(952,135)
Open position	(425)	30,475,164	21,811,095	2,751,938	525,524	386,130	320,292	1,385,392	57,655,110

Currency risk sensitivity. The tables below indicate the currencies to which the Fund had significant exposure at 31 December 2019 and 2018 on its monetary assets and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AZN, with all other variables held constant on the statement of profit or loss and other comprehensive income.

	Impact on profit/ (loss) for the year		Impact on equity		Impact on profit/ (loss) for the year		Impact on equity	
	31-Dec-19				31-Dec-18			
AZN/USD	+ 10%	3,189,182	3,189,182		+ 10%	3,047,516	3,047,516	
	- 10%	(3,189,182)	(3,189,182)		- 10%	(3,047,516)	(3,047,516)	
AZN/EUR	+ 10%	2,259,770	2,566,296		+ 10%	2,181,110	2,430,770	
	- 10%	(2,259,770)	(2,566,296)		- 10%	(2,181,110)	(2,430,770)	
AZN/GBP	+ 10%	341,024	373,815		+ 10%	275,194	308,827	
	- 10%	(341,024)	(373,815)		- 10%	(275,194)	(308,827)	
AZN/TRY	+ 10%	59,004	59,004		+ 10%	52,552	52,552	
	- 10%	(59,004)	(59,004)		- 10%	(52,552)	(52,552)	
AZN/AUD	+ 10%	40,985	40,985		+ 10%	38,613	38,613	
	- 10%	(40,985)	(40,985)		- 10%	(38,613)	(38,613)	
AZN/RUB	+ 10%	48,885	57,327		+ 10%	32,029	39,250	
	- 10%	(48,885)	(57,327)		- 10%	(32,029)	(39,250)	

Commodity price risk. The Fund is affected by the volatility of gold prices. The following table shows the effect of price changes in gold:

AZN/XAU	31-Dec-19		31-Dec-18	
	10%	-10%	10%	-10%
Impact on profit/(loss) for the year	838,116	(838,116)	355,825	(355,825)
Impact on equity	838,116	(838,116)	355,825	(355,825)

Geographical concentration. The geographical concentration of the Fund's financial assets and liabilities at 31 December 2019 is set out below:

2019	Azerbaijan	Europe	America	Asia	Australia and Oceania	International organizations	Total
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Financial assets

Cash and cash equivalents	1,047	1,861,192	688,693	39,514	-	-	2,590,446
Financial Assets at Fair Value Through Profit or Loss	9,045,673	22,075,302	17,705,373	5,797,909	1,501,217	3,487,046	59,612,520
Other financial assets	-	11,548	-	312	-	-	11,860

Total financial assets	9,046,720	23,948,042	18,394,066	5,837,735	1,501,217	3,487,046	62,214,826
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Financial liabilities

Borrowings	-	-	-	(928,066)	-	-	(928,066)
Other financial liabilities	(1,202)	(5,652)	-	(10,908)	-	-	(17,762)
Lease liabilities		(70,386)		(7,406)			(77,792)

Total financial liabilities	(1,202)	(76,038)	-	(946,380)	-	-	(1,023,620)
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Net position	9,045,518	23,872,004	18,394,066	4,891,355	1,501,217	3,487,046	61,191,206
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The geographical concentration of the Fund's financial assets and liabilities at 31 December 2018 is set out below:

2018	Azerbaijan	Europe	America	Asia	Australia and Oceania	International organizations	Total
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Financial assets

Cash and cash equivalents	933	785,999	436,821	40,835	-	-	1,264,588
Financial Assets at Fair Value Through Profit or Loss	6,957,699	22,405,476	14,727,172	6,512,370	1,727,172	5,008,386	57,338,275
Other financial assets	-	3,162	-	1,220	-	-	4,382

Total financial assets	6,958,632	23,194,637	15,163,993	6,554,425	1,727,172	5,008,386	58,607,245
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Financial liabilities

Borrowings	-	-	-	(935,981)	-	-	(935,981)
Other financial liabilities	(1,320)	(3,377)	-	(11,457)	-	-	(16,154)

Total financial liabilities	(1,320)	(3,377)	-	(947,438)	-	-	(952,135)
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Net position	6,957,312	23,191,260	15,163,993	5,606,987	1,727,172	5,008,386	57,655,110
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Other risk concentrations. Management monitors and discloses concentrations of credit risk by comparing reports from portfolios with investment policy of the Fund approved by the President of the Azerbaijan Republic. The Fund did not have any such significant risk concentrations at 31 December 2019 and 2018.

Interest Rate Risk. The Fund takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows as fixed income securities account for the largest portion of the investment portfolio. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management sets limit maximum of 48 months (duration of 4) on average for the portfolio.

Interest rate sensitivity. At 31 December 2019 and 2018 deposits and debt securities were interest-bearing and, therefore, were exposed to the interest rate risk. Depending on the market conditions the Fund is managing this risk by gradually increasing or decreasing the duration of assets in the investment portfolio. Daily risk management and monitoring is performed within above set limits by the Risk Management Department.

The following table presents a net impact of change of the fair value of securities, when market interest rate changed by 1%. Sensitivity analysis of interest rate risk has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit/(loss) before tax:

	31-Dec-19		31-Dec-18	
	Interest rate 1%	Interest rate -1%	Interest rate 1%	Interest rate -1%
Assets:				
Cash and cash equivalents	39	(39)	15	(15)
Financial assets at fair value through profit or loss	(612,085)	612,085	(334,166)	334,166
Net impact on profit/(loss) before tax	(612,046)	612,046	(334,151)	334,151
Impact on equity	(612,046)	612,046	(334,151)	334,151

Liquidity risk. Management's guiding policies are to maintain conservative levels of liquidity to ensure that the Fund has the ability to meet its obligations under all conceivable circumstances. Liquidity risk requires to hold at least of 100 million USD in cash and cash equivalents and is monitored on a daily basis. Due to budget transfers throughout the year liquidity issue is addressed in the Fund's asset class allocation (at least 60% to be invested in highly liquid Debt obligations and money market sub-portfolio), which in turn further contributes to liquidity of the Fund's investment portfolio.

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts of liabilities 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 amount in the statement of financial position is based on discounted cash flows.

An analysis of the liquidity risk of financial position items is presented in the following tables:

2019	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Financial assets							
Cash and cash equivalents	-	797	-	-	-	2,589,649	2,590,446
Financial assets at fair value through profit or loss	2,020,129	2,740,790	9,868,602	28,718,165	4,717,517	11,547,317	59,612,520
Other financial assets	4,283	1,937	5,640	-	-	-	11,860
Total financial assets	2,024,412	2,743,524	9,874,242	28,718,165	4,717,517	14,136,966	62,214,826
Financial liabilities							
Borrowings	(331)	(4,631)	(14,888)	(984,648)	-	-	(1,004,498)
Lease liabilities	(233)	(466)	(2,098)	(10,480)	(245,945)	-	(259,222)
Other financial liabilities	(17,762)	-	-	-	-	-	(17,762)
Total financial liabilities	(18,326)	(5,097)	(16,986)	(995,128)	(245,945)	-	(1,281,482)
Liquidity gap	2,006,086	2,738,427	9,857,256	27,723,037	4,471,572	14,136,966	60,933,344

2018	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	over 5 year	Maturity undefined	Total
Financial assets							
Cash and cash equivalents	4,437	-	-	-	-	1,260,151	1,264,588
Financial assets at fair value through profit or loss	3,093,230	2,065,143	7,886,959	28,646,098	9,417,093	6,229,752	57,338,275
Other financial assets	4,382	-	-	-	-	-	4,382
Total financial assets	3,102,049	2,065,143	7,886,959	28,646,098	9,417,093	7,489,903	58,607,245
Financial liabilities							
Borrowings	(327)	(4,760)	(15,261)	(1,014,750)	-	-	(1,035,098)
Other financial liabilities	(16,154)	-	-	-	-	-	(16,154)
Total financial liabilities	(16,481)	(4,760)	(15,261)	(1,014,750)	-	-	(1,051,252)
Liquidity gap	3,085,568	2,060,383	7,871,698	27,631,348	9,417,093	7,489,903	57,555,993

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

	31-Dec-19		31-Dec-18	
	1% increase in securities price	1% decrease in securities price	1% increase in securities price	1% decrease in securities price
Impact on profit/(loss) before tax	596,125	(596,125)	573,383	(573,383)
Impact on net assets/equity	596,125	(596,125)	573,383	(573,383)

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Fund cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23. Commitments and Contingencies

Off-balance sheet transactions. On 11 August 2006 the Fund signed an Asset Management Agreement on “Granting free budget (balance) Funds to trust management” with the Ministry of Finance of the Republic of Azerbaijan. According to this agreement free budget Funds of the Ministry of Finance of the Republic of Azerbaijan are to be transferred to and managed by the Fund within the asset management rules set in the agreement with the Ministry of Finance of the Republic of Azerbaijan. The Fund manages these assets free of charge, on behalf of the Ministry of Finance and in favor, at the expense and at the risks of the Ministry of Finance of the Republic of Azerbaijan. At 31 December 2019 the total value of the assets were AZN 2,208 million (31 December 2018: AZN 577,064 thousand) including accrued interest.



24. Transactions with Related Parties

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

Transactions between the Fund and its subsidiaries, which are related parties of the Fund, have been eliminated on consolidation and are not disclosed in this note. All government entities and their subsidiaries are considered to be entities under common control with the Fund. Transactions with such entities are disclosed below as related party transactions:

	Year	Contributions received from related parties	Carrying value of investment in joint venture	Transfers to related parties	Carrying value of bonds acquired from related parties	Interest income on bonds acquired from related parties	Bank accounts with related parties	Off-balance sheet transactions
SOCAR	2019 2018	14,049,684 16,525,824						
Azerbaijan Gas Supply Company	2019 2018	471,371 -						
Operating Companies	2019 2018	883,635 907,243						
The State Budget	2019 2018			11,364,300 10,959,000				
Ministry of Finance of the Republic of Azerbaijan	2019 2018				- 74,289	- 3,917		2,207,798 577,064
Azerbaijan Melioration and Water Sludge system OSC	2019 2018			- 89,999				
Ministry of Transport, Communications and High Technologies of the Republic of Azerbaijan	2019 2018			- 176,128				
State Committee for Affairs of Refugees and Internally Displaced Persons and Social Development Fund of the Internally Displaced Persons of the Republic of Azerbaijan	2019 2018			200,000 199,979				
Central Bank of the Republic of Azerbaijan	2019 2018						972 820	
Ministry of Education of the Republic of Azerbaijan	2019 2018			- 7,236				
International Bank of Azerbaijan	2019 2018				1,436,610 1,432,593	55,614 55,571	71 112	
Southern Gas Corridor CJSC	2019 2018				4,793,334 4,412,344	169,915 147,997		
Mercury Investments and Holdings Ltd.	2019 2018				1,222,709 260,336	18,842 10,548		
Azerbaijan (ACG) Ltd	2019 2018				289,931 337,452	12,601 13,150		
SOCAR (Absheron)	2019 2018				875,334 440,686	48,502 8,222		
SOCAR (Karabakh)	2019 2018				427,755	3,382		
"Azerbaijan Rigs" LLC	2019 2018		895,751 1,014,898					
"Capitals Property S.a.r.l" LLC	2019 2018		151,448 152,316					

Key management personnel

The senior management group consists of the Fund's Executive Director, Deputy Executive Director and Director of Finance and Operations. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

In thousands of Azerbaijani Manats	2019	2018
<i>Short-term benefits:</i>		
-Salary expense	282	299
-State Social Protection Fund expense	82	65
Number of persons	3	3

25. Interests in Structured Entities

Consolidated structured entities. A Tokumei Kumiai ("TK") agreement is a contractual arrangement under which one or more silent investors (the "TK investor") makes a contribution to a Japanese operating company (the "TK operator") in return for a share in the profit/loss of a specified business conducted by the TK operator (the "TK business"). To support the tax status of the TK, a Japanese resident company should have independent stake in the TK business. To comply with TK-GK rules, SOFAZ and Mitsubishi UFJ Trust and Banking ("MUTB") entered into TK arrangement to acquire Kirarito Ginza where MUTB is a Japanese resident and contributed 2% of the investment amount JPY 1,100 million (AZN 9,643 thousand) required for TK Business, i.e. for TK Operator to acquire the property. TK-GK tax structure was chosen to obtain 0% withholding tax on distribution of TK profits to SOFAZ under Japan-former Soviet Union tax treaty. According to the agreement the total amount of SOFAZ's investment constituted JPY 51,989 million (AZN 455,736 thousand). In return both SOFAZ and MUTB were entitled to a proportional share of profit or loss of TK Business. In 2016 MUTB was replaced by PGIM Foreign Investment Inc, who acquired MUTB's interests in the structure and took over the asset management role. The Asset Managers of PGIM Foreign Investment Inc is PGIM Real Estate (Japan).

The TK operator invested proceeds from investors in a retail complex in Ginza, Tokyo, for JPY 52,300 million

(AZN 458,462 thousand). The building met the definition of an investment property under IAS 40. SOFAZ signed an Agreement with the TK operator that contains the Strategic Plan on the development and management of the investment property. The TK operator operates the business of the company according to the Agreement and the Strategic Plan.

TK agreement provides SOFAZ with limited rights with respect to the management and development of the investment property. This makes the TK operator similar to unconsolidated structured entities under IFRS 12, where a structured entity is an entity that has been designed so that voting or similar rights are not dominant factors in its management and control. Under this arrangement, voting rights relate to the administrative tasks only and relevant activities of the company are directed by means of contractual arrangements.

Based on the specific characteristics of the TK Agreement, the management concluded that a principal/agent relationship exists between SOFAZ and the TK operator. According to IFRS 10, the investor should treat decision making powers delegated to the agent as held by the investor/principal himself. The management performed analysis based on paragraph B60 of IFRS 10 and given the limited 2% investment by the Asset Managers, concluded that the TK operator is an agent of SOFAZ and hence, SOFAZ should consolidate the investee.

26. Events after the Reporting Period

In accordance with the Decree #906 of the President of the Republic of Azerbaijan on the Approval of the Budget of the State Oil Fund of the Republic of Azerbaijan for 2020 dated 29 December 2019, the Fund's budgeted contributions and distributions for the year of 2020 are estimated at AZN 12,384,088 thousand and AZN 11,589,910 thousand, respectively.

The following main types of distributions for 2020 are budgeted:

- Upper bound of transfer to the State Budget of the Republic of Azerbaijan – AZN 11,350,000 thousand;
- Financing of the measures for improvement of social conditions of internally displaced people – AZN 200,000 thousand;
- Financing of "The State Program for increasing international competitiveness of the higher education system of the Republic of Azerbaijan in 2019-2023" – AZN 10,000 thousand;
- Administrative expenses of the State Oil Fund of the Republic of Azerbaijan – AZN 29,910 thousand.

Covid-19 Outbreak. Beginning in late 2019, there were reports of the COVID-19 (coronavirus) outbreak originating in China, prompting government-imposed quarantines, cessation of certain projects and business closures. The economic conditions prevailing in the worldwide markets present several challenges to the Fund's operations going forward. Ordinarily, the current demand fluctuations in crude oil prices influence the Fund's ability to further its business objectives. This effect is likely to become more pronounced in light of the severe instability in such markets and crude oil prices as impacted by the COVID-19 pandemic. The unstable crude oil prices could have a material adverse effect on the Fund's assets in the current and upcoming fiscal periods. Another challenge facing the Fund is that, much like other sovereign wealth funds, the Fund's investment portfolio that includes public company shares is likely to suffer from temporary losses from short-term price fluctuations.

The Fund's investment management policies include several important mechanisms intended to mitigate the above-referenced risks. Namely, up to 70% of the

Fund's investment portfolio includes high-quality liquid investments, including debt and money market instruments. In addition, more than 80% of its portfolio consists of fixed-income securities and gold, which are characterized by high liquidity and low price volatility, and, in general, as the more reliable financial instruments in times of market volatility and uncertainty.

The Fund has been and continues to closely monitor the market conditions and assess its position vis-à-vis the market situation. While no single mitigating measure could be sufficient to counter a rapidly evolving market situation, the Fund intends to maintain its carefully crafted and measured approach going forward.

It is presently unknown whether and to what extent the Fund's operations may be affected if the pandemic persists for an extended period of time. The Fund believes that its financial resources will be adequate to see it through the outbreak. Management considers this outbreak to be non-adjusting post balance sheet event. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

APPENDIX

SOVEREIGN WEALTH FUNDS

‘SANTIAGO PRINCIPLES’

GENERALLY ACCEPTED PRINCIPLES AND PRACTICES

SELF-ASSESSMENT

April, 2020

APPENDIX

Narration of Principles / Sub-Principles	Responses
A. Legal Framework, Objectives, and Coordination with Macroeconomic Policies. GAPP 1. PRINCIPLE The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s). GAPP 1.1. Subprinciple The legal framework for the SWF should ensure legal soundness of the SWF and its transactions. GAPP 1.2. Subprinciple The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.	Legal framework of SOFAZ is clearly defined in the “Statute of the State Oil Fund of the Republic of Azerbaijan” (hereinafter “Statute of SOFAZ”) approved by the decree of the President of the Republic of Azerbaijan. SOFAZ is a legal entity separate from the government or central bank. The Fund's operation is guided by the Constitution and laws of the Republic of Azerbaijan, Presidential Decrees and resolutions, and SOFAZ's Regulations. All relevant documents related to the legal basis and structure and the legal relationships between SOFAZ and the other government agencies are publicly disclosed and they are available on the Fund's website. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf
GAPP 2. PRINCIPLE The policy purpose of the SWF should be clearly defined and publicly disclosed.	SOFAZ was established for the purpose of accumulation and management of the revenues generated from implementation of oil and gas agreements. SOFAZ’s primary objectives are to help maintain macroeconomic stability in the country (neutralize negative impact of the currency inflows) and to generate wealth for present and future generations. Above discussed purpose of establishment, as well as the primary objectives are publicly disclosed on the Funds website. For further information: https://www.oilfund.az/storage/images/rt3csc0jvm.pdf https://www.oilfund.az/en/fund/about/mission
GAPP 3. PRINCIPLE Where the SWF’s activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.	According to its bylaws, SOFAZ is not permitted to invest domestically. Expenditures of SOFAZ constitute part of the consolidated state budget approved by the Parliament. According to Budget System Law the consolidated state budget is being prepared in close consultation with all relevant government entities (Ministry of Finance, Ministry of Economy, etc.) and involvement of SOFAZ. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf https://www.oilfund.az/storage/images/reydixurrb.pdf https://www.oilfund.az/storage/images/vfbtvgrpz.pdf https://www.oilfund.az/storage/uploads/emcjtf8wiz.pdf

Narration of Principles / Sub-Principles	Responses
GAPP 4. PRINCIPLE There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations. GAPP 4.1. Subprinciple The source of SWF funding should be publicly disclosed. GAPP 4.2. Subprinciple The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.	SOFAZ's Funding and Withdrawal rules are clearly defined by the "Statute of SOFAZ" and "Rules on the preparation and execution of the annual program of revenues and expenditures (budget) of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Rules on the budget of SOFAZ") which are publicly disclosed on SOFAZ's website. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf https://www.oilfund.az/storage/images/reydixurrb.pdf https://www.oilfund.az/storage/uploads/emcjt8wiz.pdf
GAPP 5. PRINCIPLE The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.	SOFAZ submits monthly statistical reports to the President and Ministry of Finance, as well as quarterly and yearly reports to the State Statistical Committee. SOFAZ also reports on its revenues and expenditures to the Parliamentary Chamber of Accounts and on other relevant information to the Ministry of Taxes, State Social Protection Fund and other relevant government agencies. Additionally, SOFAZ regularly provides the relevant information on its activities to the World Bank and International Monetary Fund. All the relevant statistical data pertaining to the fund, is publicly disclosed on SOFAZ's website (audited annual reports, quarterly statements, etc.). For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf https://www.oilfund.az/storage/images/vfbtvgrpz.pdf https://www.oilfund.az/storage/uploads/emcjt8wiz.pdf
B. Institutional Framework and Governance Structure GAPP 6. PRINCIPLE The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.	SOFAZ has a three-tier governance structure, with the President of the country being a supreme governing and reporting authority for the Fund. SOFAZ's activities are overseen by a Supervisory Board which is headed by the Prime Minister and consists of the Vice-Speaker of Parliament, Minister of Finance, Minister of Economy, Governor of the Central Bank, Advisor to the President of the Republic of Azerbaijan on Economy and Innovative Development Policy and Advisor to the President of the Republic of Azerbaijan on Economic Policy and Industry. The operational management of SOFAZ is vested in the Executive Director. The relevant duties and responsibilities of the President of the country, Supervisory Board and Executive Director are clearly defined in the "Statute of SOFAZ". For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf

Narration of Principles / Sub-Principles	Responses
GAPP 7. PRINCIPLE The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.	The objectives of SOFAZ are clearly defined in "Statute of SOFAZ" approved by the President of the Republic of Azerbaijan. Please see also the response on GAPP 5 and 6. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf
GAPP 8. PRINCIPLE The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.	The Supervisory Board of the Fund, which is headed by the Prime Minister and consists of the Minister of Finance, Governor of the Central Bank, Minister of Economy, Vice-Speaker of Parliament, Advisor to the President of the Republic of Azerbaijan on Economy and Innovative Development Policy and Advisor to the President of the Republic of Azerbaijan on Economic Policy and Industry, have a clear mandate and adequate authority and competency to fulfil its functions. All roles and responsibilities of the Supervisory Board are clearly defined in the relevant legislation. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf https://oilfund.az/en/fund/management/supervisory
GAPP 9. PRINCIPLE The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	"Statute of SOFAZ", "Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Investment guidelines") and "Rules on the budget of SOFAZ" clearly define the role and responsibilities of the Executive Director. In accordance with these role and responsibilities Executive Director has independence in operational management. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf https://www.oilfund.az/storage/images/daafr06kpe.pdf https://www.oilfund.az/storage/images/reydixurrb.pdf
GAPP 10. PRINCIPLE The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	Accountability framework of SOFAZ is clearly defined in the "Statute of SOFAZ", "Investment guidelines", "Rules on the budget of SOFAZ" and Budget System Law all of which are available on the Fund's website. Fund produces and publicly discloses audited annual reports and quarterly reports. Information about Fund's activities is also disseminated through regular press conferences and published on the Fund's website. See also response on GAPP 5. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf https://www.oilfund.az/storage/images/daafr06kpe.pdf https://www.oilfund.az/storage/images/reydixurrb.pdf https://www.oilfund.az/storage/uploads/emcjt8wiz.pdf



Narration of Principles / Sub-Principles	Responses
GAPP 11. PRINCIPLE An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.	Since the start of its operations, SOFAZ has prepared annual reports and accompanying financial statements. All financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). All annual reports and accompanying financial statements are published on SOFAZ's website. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf https://www.oilfund.az/en/report-and-statistics/report-archive
GAPP 12. PRINCIPLE The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.	Since the start of its operations SOFAZ has been audited by reputable international audit firms. In line with the Public Procurement Law, the Fund conducts open market tender processes to select its auditor. Price Waterhouse Coopers has been appointed to audit SOFAZ financial statements for years 2019-2021. All annual reports and accompanying financial statements are available on the SOFAZ's website. SOFAZ also has Internal Audit department that prepares periodic internal audit reports. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf https://www.oilfund.az/en/report-and-statistics/report-archive http://www.e-qanun.az/framework/1029
GAPP 13. PRINCIPLE Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body, management and staff.	Professional and ethical standards are clearly defined in the "Investment Guidelines". SOFAZ's management and staff have to comply with ethical norms and rules of the International Financial Markets Association (ACI, Paris) and "Rules of Ethical Conduct for the Employees of SOFAZ". For further information: https://www.oilfund.az/storage/images/daafr06kpe.pdf https://oilfund.az/fund/management/behavior-rules

Narration of Principles / Sub-Principles	Responses
GAPP 14. PRINCIPLE Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.	SOFAZ's activities related to third parties are based on economic and financial grounds. Fund's "Investment Guidelines" and "Investment Policy" regulate SOFAZ's dealing with third parties. All aspects of dealing with external managers are clearly defined in relevant documentation about SOFAZ's activity. Appointment of external managers is carried out in compliance with the current legislation of Azerbaijan Republic on "State Procurement". External managers are selected on the basis of the criteria, such as credit rating of manager, assets under management, experience in the asset management industry, proposed rate of return and risk, proposed fees schedule etc. Compliance of the external managers' investments to their mandate is monitored daily. Performance of external managers' portfolios is monitored monthly. For further information: https://www.oilfund.az/storage/images/daafr06kpe.pdf https://www.oilfund.az/en/investments/investment
GAPP 15. PRINCIPLE SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.	SOFAZ conducts its operations and activities in host countries in compliance with all applicable regulatory and disclosure requirements of those host countries.
GAPP 16. PRINCIPLE The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.	SOFAZ's governance framework, objectives and its operational independence are clearly defined in the relevant legislation. For further information: https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf
GAPP 17. PRINCIPLE Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.	Audited financial statements are published in SOFAZ's annual report, which is publicly available. Quarterly reports and all other relevant financial information about SOFAZ's activities are published on its website. Disclosed financial information includes AUM, asset allocation, benchmark, annual rates of return, etc. For further information: https://www.oilfund.az/en/report-and-statistics/report-archive https://www.oilfund.az/en/investments/quarterly-investment-results

Narration of Principles / Sub-Principles	Responses
C. Investment and Risk Management Framework GAPP 18. PRINCIPLE The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles. GAPP 18.1. SUBPRINCIPLE The investment policy should guide the SWF's financial risk exposures and the possible use of leverage. GAPP 18.2. SUBPRINCIPLE The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored. GAPP 18.3. SUBPRINCIPLE A description of the investment policy of the SWF should be publicly disclosed.	"Investment Guidelines" and "Investment Policy" set up SOFAZ's asset management framework and ensure the transparency in its investment decisions. Among the others, they define strategic asset allocation, currency composition, benchmarks, risk limits, minimum requirements for the SOFAZ's external managers and limitations on the investment directions, as well as the credit quality limits for Fund's counterparties (custodian banks, correspondent banks, etc.). Derivatives (i.e. swaps, forwards, futures, etc.) may only be used for hedging or optimizing the currency composition and asset allocation of the Investment Portfolio. For policies and procedures related to the Fund's external managers, please see our response on GAPP 14. Fund's "Investment guidelines" and "Investment Policy" are available on its website. For further information: https://www.oilfund.az/storage/images/daafr06kpe.pdf https://www.oilfund.az/en/investments/investment
GAPP 19. PRINCIPLE The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds. GAPP 19.1. SUBPRINCIPLE If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed. GAPP 19.2. SUBPRINCIPLE The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.	According to its "Investment Policy", SOFAZ's investment decisions should aim at maximizing the risk adjusted returns. Fund's all investment decisions are made purely on an economic and financial basis according to the sound asset management principles. See also response on GAPP 18. For further information: https://www.oilfund.az/en/investments/investment
GAPP 20. PRINCIPLE The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.	According to its bylaws, SOFAZ is not permitted to invest domestically. In line with the "Investment guidelines", SOFAZ makes investment decisions independently of the government. Institutional and legal framework of SOFAZ has been designed in a way that SOFAZ cannot seek or take advantage of any privileged information. For further information: https://www.oilfund.az/storage/images/daafr06kpe.pdf https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf

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GAPP 21. PRINCIPLE SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.	SOFAZ started to invest in equities in 2012 and has chosen not to exercise its ownership rights at this stage.
GAPP 22. PRINCIPLE The SWF should have a framework that identifies, assesses and manages the risks of its operations. GAPP 22.1. SUBPRINCIPLE The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function. GAPP 22.2. SUBPRINCIPLE The general approach to the SWF's risk management framework should be publicly disclosed.	Identification, assessment and management of the risks of SOFAZ's operations play crucial role in the Fund's overall management framework. SOFAZ's risk management system is supported with appropriate legal framework ("Investment Guidelines", "Investment Policy", etc), a specialized risk unit (Risk Management Department), internal and external audit functions and tools like RiskManager 4 by RiskMetrics and proprietary models. "Investment Guidelines" and "Investment Policy" set the main principles of risk management framework and clearly define limits on major factors for market, credit, concentration and liquidity risks. Certain pre-trade limits are set based on these factors. Furthermore, these risk factors are monitored on a daily basis via regular risk and performance reports. In addition to the factors set in the "Investment Guidelines" and "Investment Policy", a more in-depth analysis and monitoring of the market risk is performed on a regular basis through: interest rate sensitivity analysis (key rate durations, PV01, etc.), risk concentration analysis (duration by groups, VaR by groups, marginal VaR, etc.), tail events (conditional VaR, stress tests) and scenario analyses. Operational risk is managed in accordance with SOFAZ's Operational Manual and business continuity planning. For further information: https://www.oilfund.az/storage/images/daafr06kpe.pdf https://www.oilfund.az/en/investments/investment
GAPP 23. PRINCIPLE The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.	Comprehensive reports on assets of SOFAZ (including information on breakdown of investment portfolio by foreign currencies, asset class, credit ratings, maturities and geographic regions) are disseminated through the quarterly press releases. The performance of SOFAZ's investments is measured according to best industry standards and reported on an annual basis. Annual reports and quarterly statements are posted on SOFAZ's website. For further information: https://oilfund.az/en/report-and-statistics/report-archive
GAPP 24. PRINCIPLE A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	This report was first published on SOFAZ's official website in April, 2011 and it is reviewed on an annual basis.



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