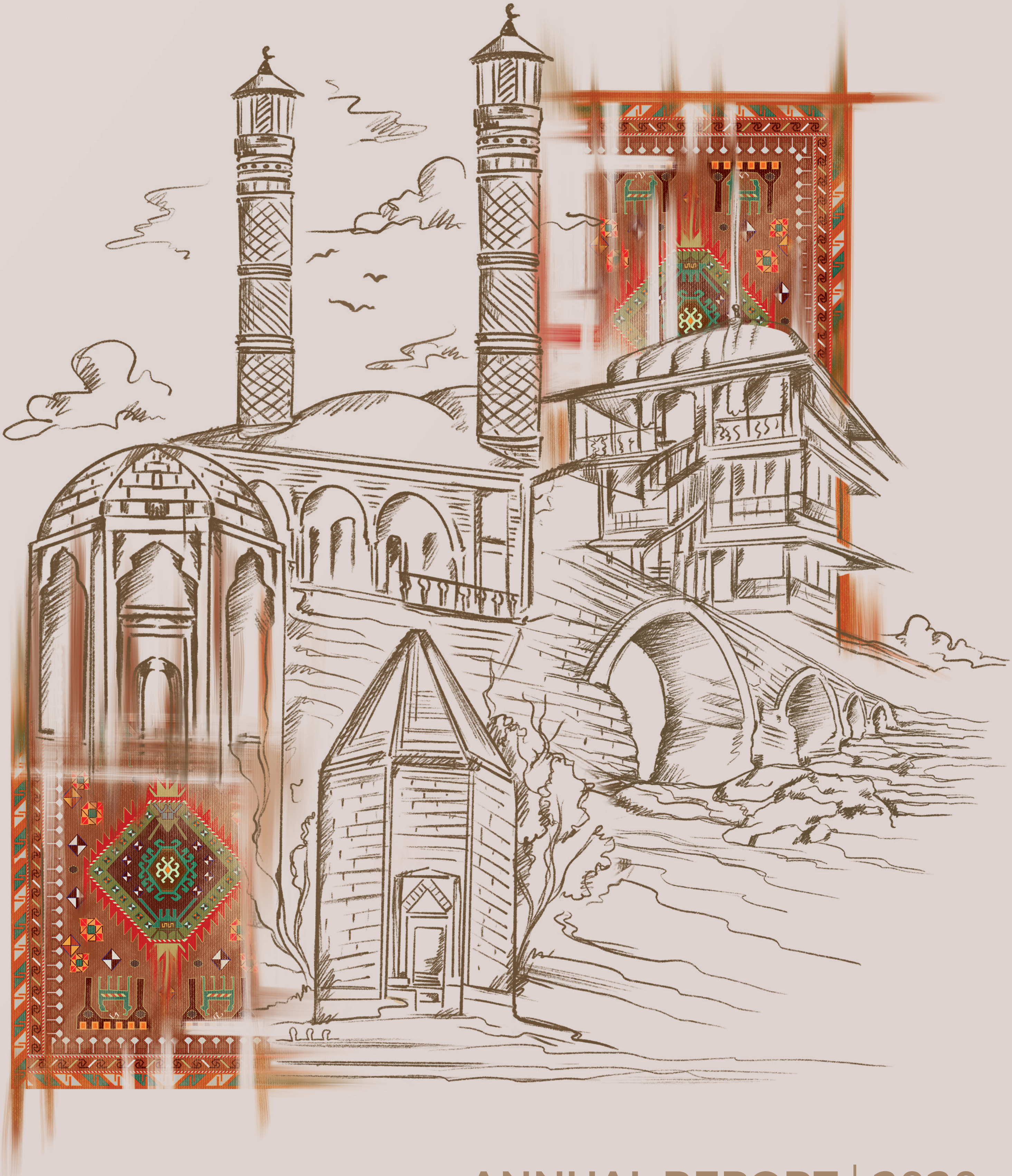
STATE OIL FUND OF THE
REPUBLIC OF AZERBAIJAN



ANNUAL REPORT | 2020

STATE OIL FUND
OF THE REPUBLIC OF AZERBAIJAN

ANNUAL REPORT
2020

CONTENT

ABBREVIATIONS

ACG - AZERI-CHIRAG-GUNESHLI

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

SGC - SOUTHERN GAS CORRIDOR

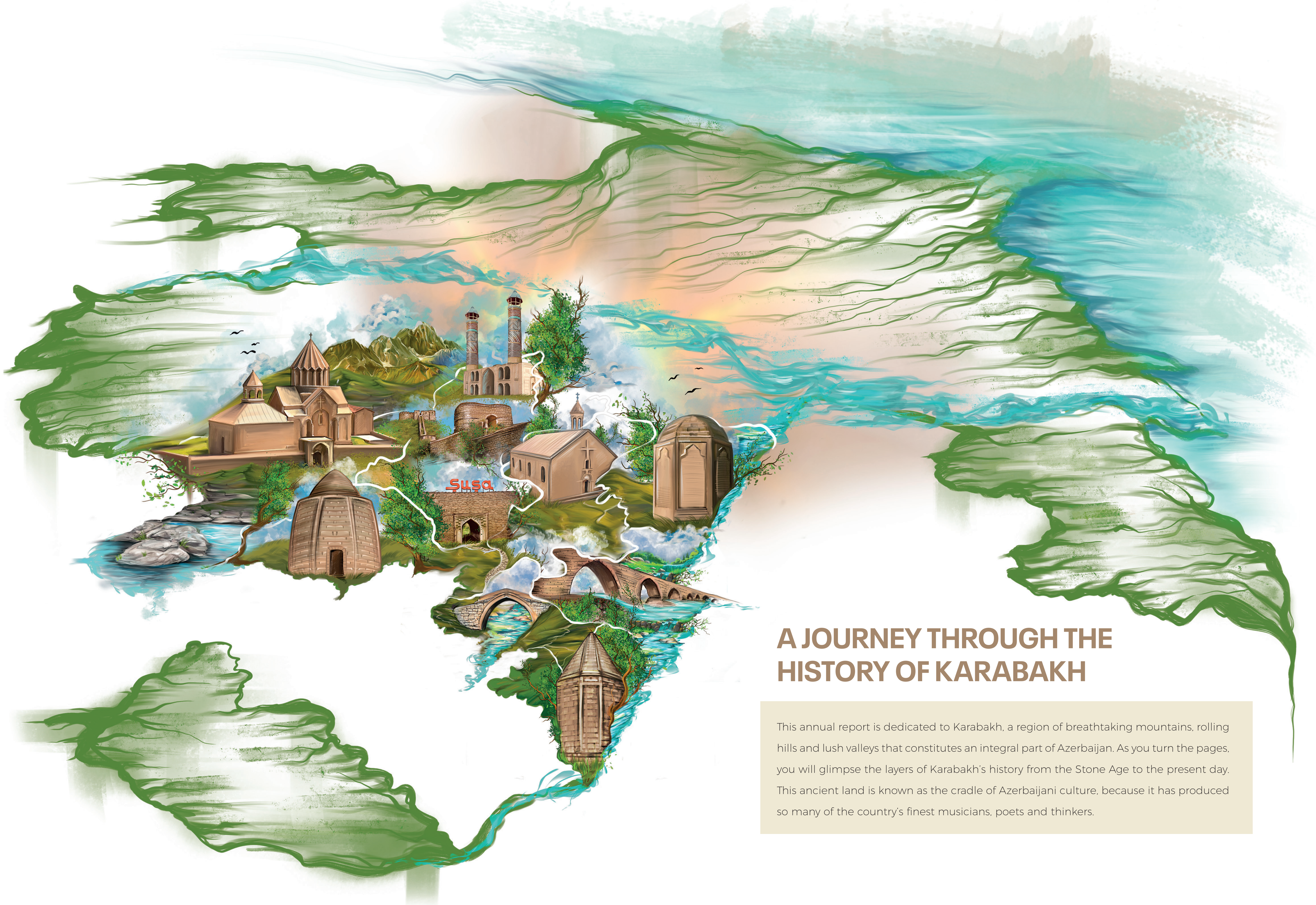
SOFAZ - THE STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN

ARSSC - THE STATE STATISTICAL COMMITTEE OF THE REPUBLIC OF AZERBAIJAN

SWFI - THE SOVEREIGN WEALTH FUND INSTITUTE

VAR - VALUE AT RISK

WB - THE WORLD BANK



A JOURNEY THROUGH THE HISTORY OF KARABAKH

This annual report is dedicated to Karabakh, a region of breathtaking mountains, rolling hills and lush valleys that constitutes an integral part of Azerbaijan. As you turn the pages, you will glimpse the layers of Karabakh's history from the Stone Age to the present day. This ancient land is known as the cradle of Azerbaijani culture, because it has produced so many of the country's finest musicians, poets and thinkers.

The name Karabakh combines the Azerbaijani words *kara* and *bakh*. *Kara* in Azerbaijani and other Turkic languages is the word for "black", and has other meanings including "grand" and "dense". *Bakh* means "garden" or "orchard", so the name Karabakh reflects the fertile landscape of this region.

The province of Karabakh extends from the Zangazur Mountains to the confluence of the Kur and Aras rivers in the east. The term Nagorno-Karabakh (Mountainous Karabakh) was created much later for just one part of Karabakh with a view to separating it from the rest of the region. The word Nagorno is not even Azerbaijani, but Russian. The whole of Karabakh, with both its mountains and lowlands, is part of the historic homeland of the Azerbaijani people and makes up a large part of the territory of the Republic of Azerbaijan.

Karabakh has been inhabited for millennia. An astonishing discovery was made in 1968 in Azikh Cave in Karabakh's Khojavand district. Azerbaijani paleontologist Mammadali Huseynov found the jawbone of a young woman who is thought to have lived 350,000-400,000 years ago. The people who lived in the Azikh and Taghlar caves at that time are known to archaeologists as Azikhantrop or Azikh Man.

In the second and first millennia BCE the Khojaly-Gadabay culture covered most of Karabakh. Uzerliktapa in Karabakh's Aghdam region was part of this Bronze Age culture and is the oldest urban settlement in the Caucasus.

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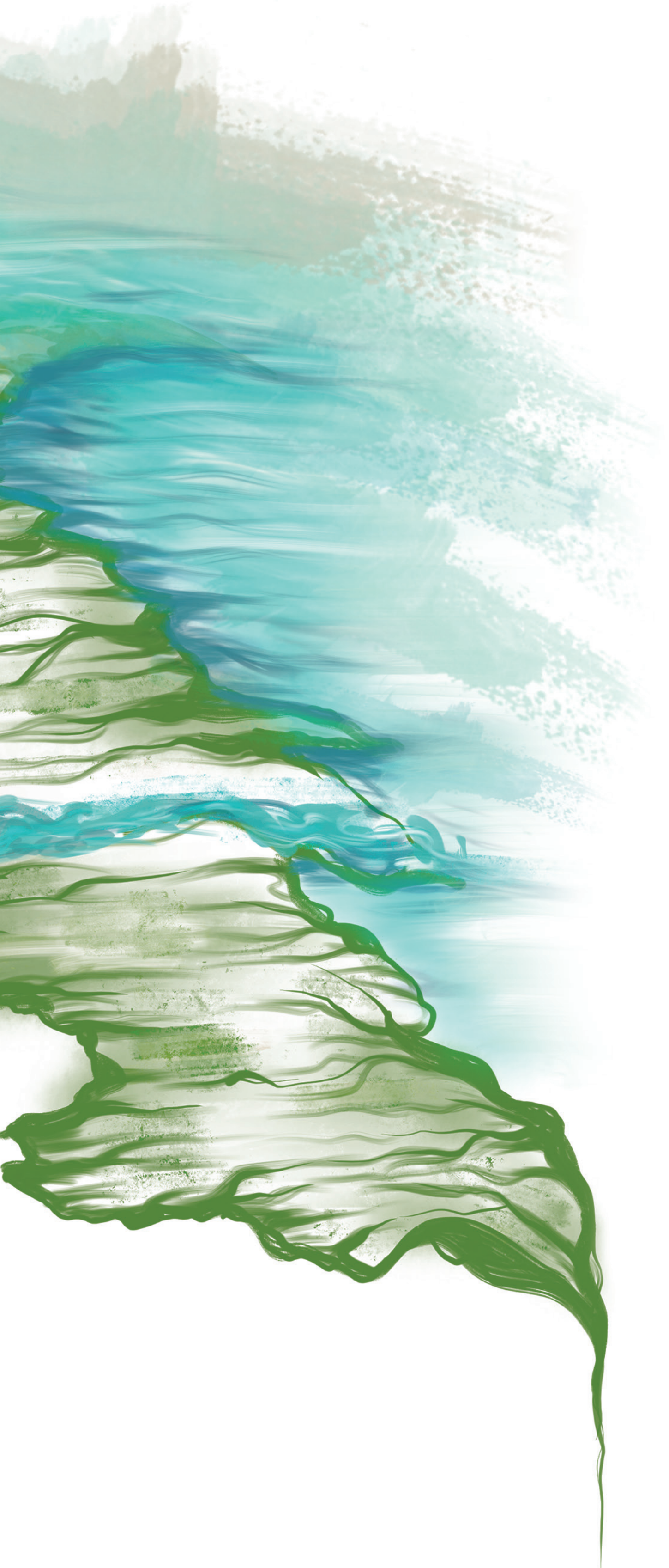


1. ABOUT SOFAZ

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.

OUR VALUES

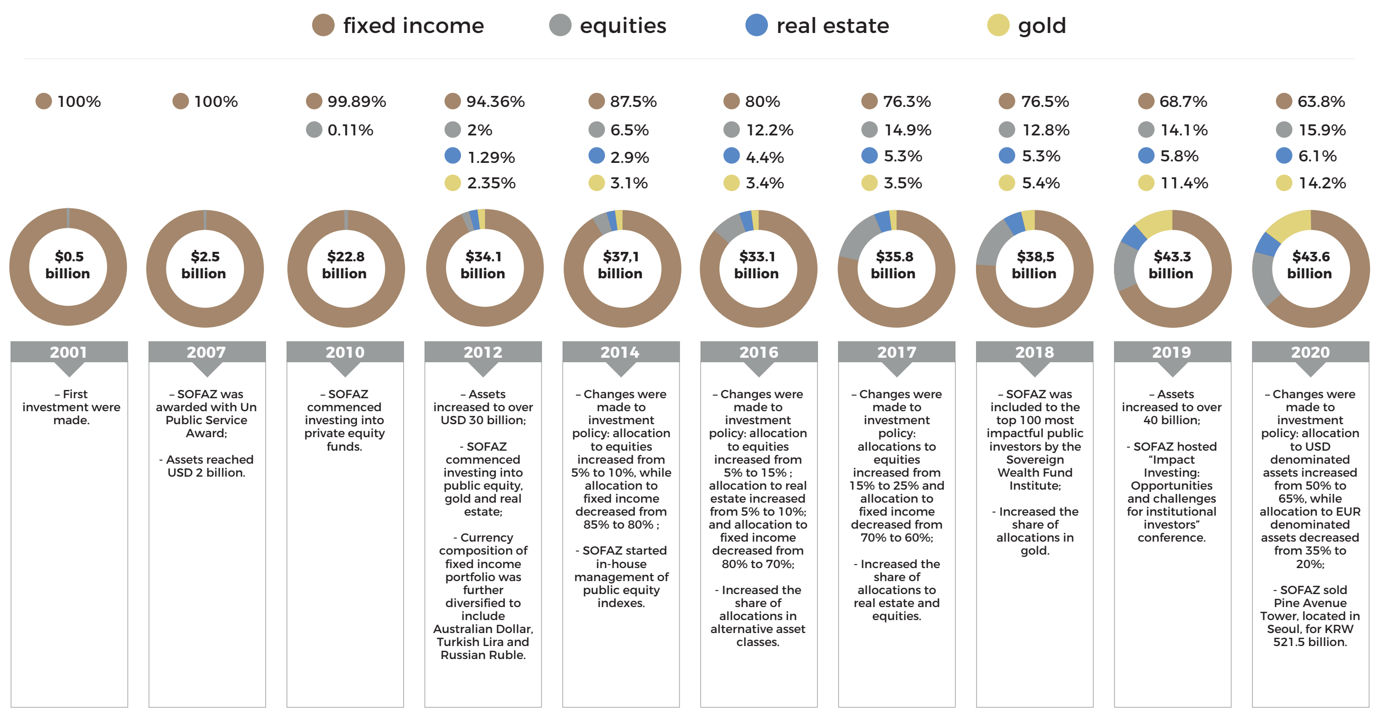
Integrity
We conduct our activity in accordance with the highest moral standards and ethical principles of society. We are honest and truthful in all our words and actions.

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.

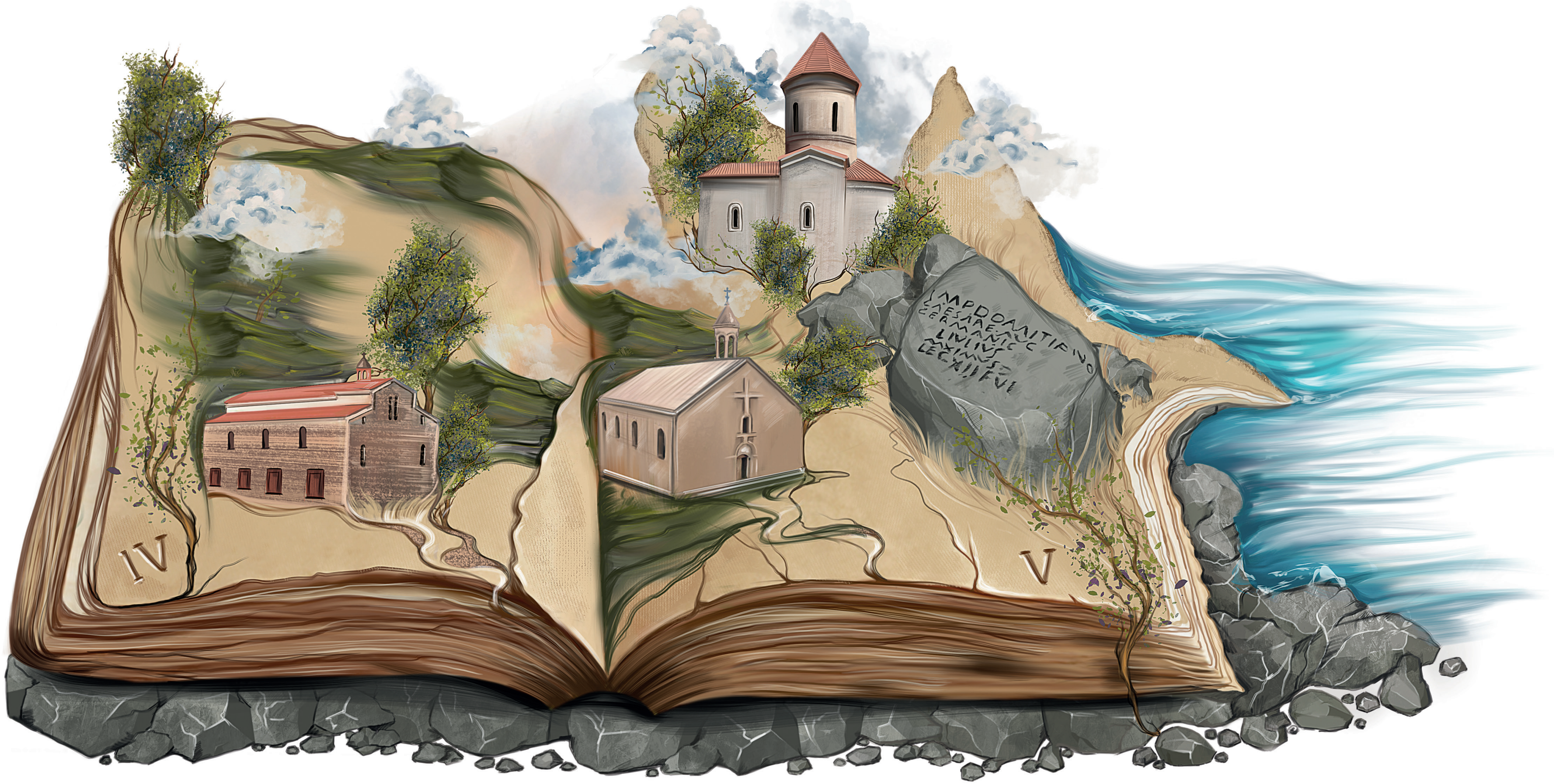


Note: The diagram illustrates year by year Assets under Management and breakdowns of the investment portfolio by asset class.

CAUCASIAN ALBANIA

The state of Caucasian Albania made the biggest mark on the early history of the modern Caucasus. It was extensively described by Greek geographer Strabo and Roman historian Dio Cassius in their works *Geography* and *The History of Rome* respectively.

In Late Antiquity and the Early Middle Ages, Karabakh was an important province of Caucasian Albania (4th century BCE to the 5th century CE). A great number of burial mounds from that period have been discovered in Beylagan, Aghjabadi, Barda, Yevlakh, Tartar and the upland area of Karabakh.



In the first century CE construction of Kish Temple (also known as the Church of Saint Elishe) began in the village of Kish in Shaki district. The first church in Europe, its construction encouraged the spread of Christianity in the Caucasus. During that period, Christianity became the official religion in Caucasian Albania and many ancient monasteries in Karabakh, such as Amaras and Aghoghlan, were established.

In 630, during the Mehrani Dynasty, the capital of Caucasian Albania was moved from Gabala to Barda in the Karabakh region, increasing the role of Karabakh in the socio-political life of the country. During the reign of Javanshir (642-681), the most powerful ruler of the Mehrani Dynasty, Caucasian Albania tried to protect itself from the wars between Byzantium, the Sassanids, and the Arab Caliphate, establishing strong diplomatic relations. After Javanshir died in 681, the state began to weaken, and in 705 Caucasian Albania was occupied by the caliphate. Nevertheless, the local governance system was maintained by the Mehranis, and Islam began to spread rapidly in the area.

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2. FACTS AT A GLANCE

Chart 2.1. Growth in SOFAZ assets (USD billion)

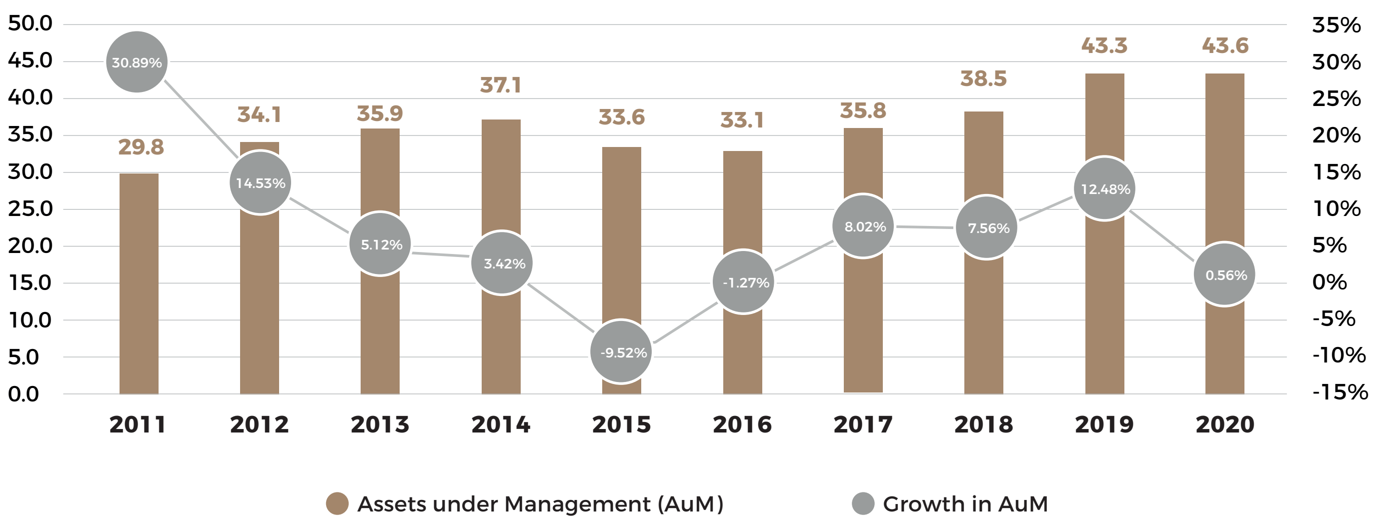


Chart 2.2. Annualised rate of return on investment portfolio

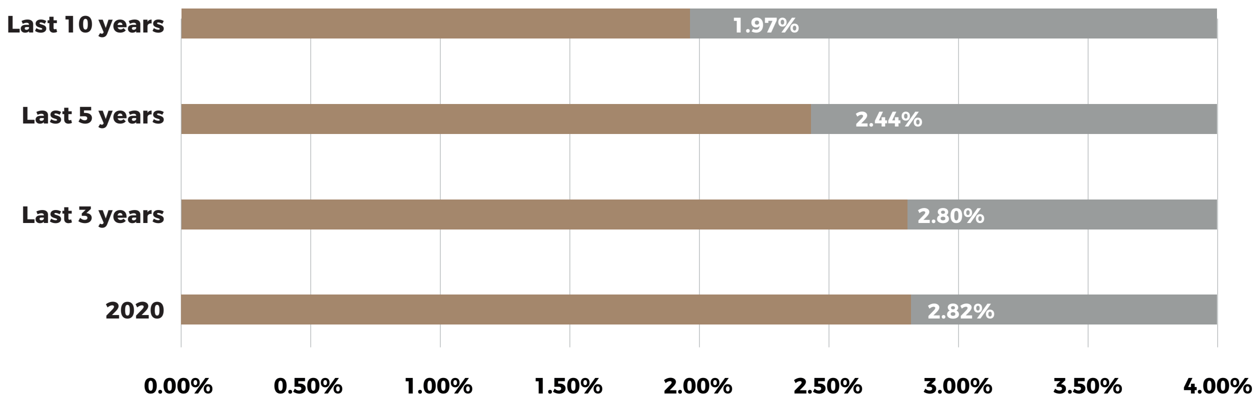


Chart 2.3. Currency composition as percentage of Investment Portfolio

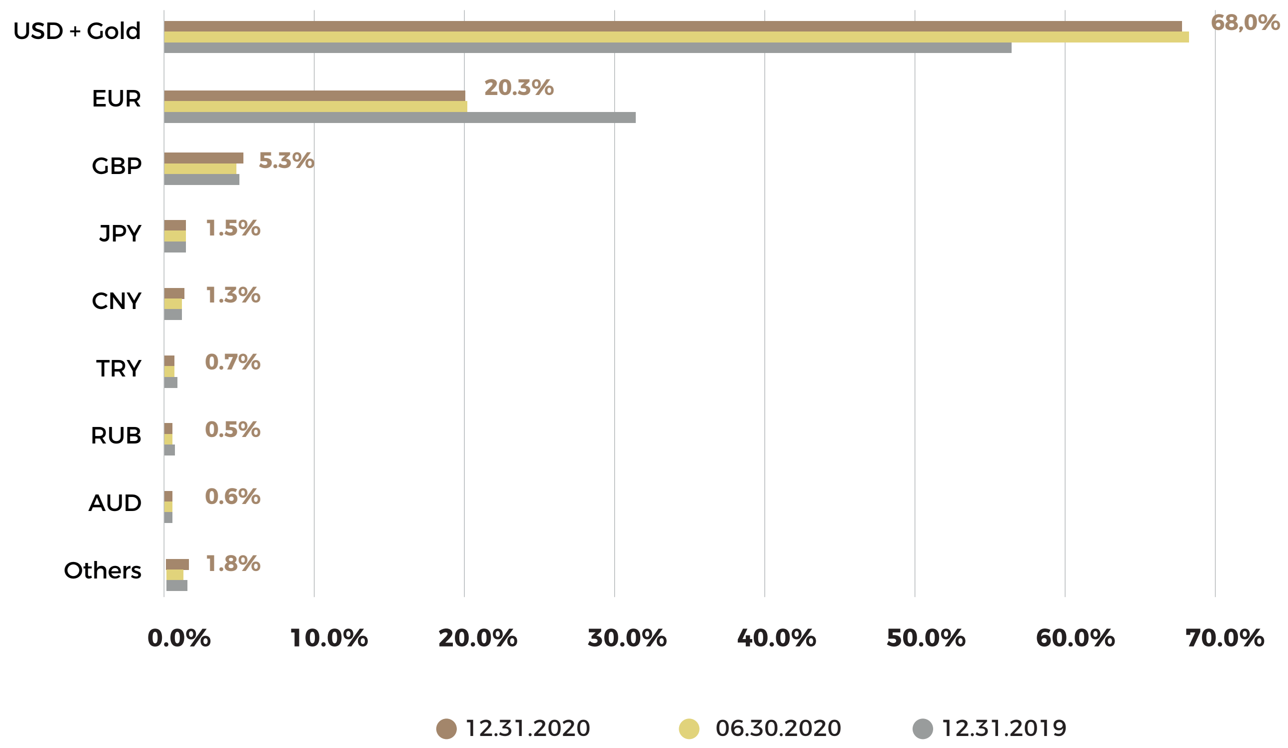
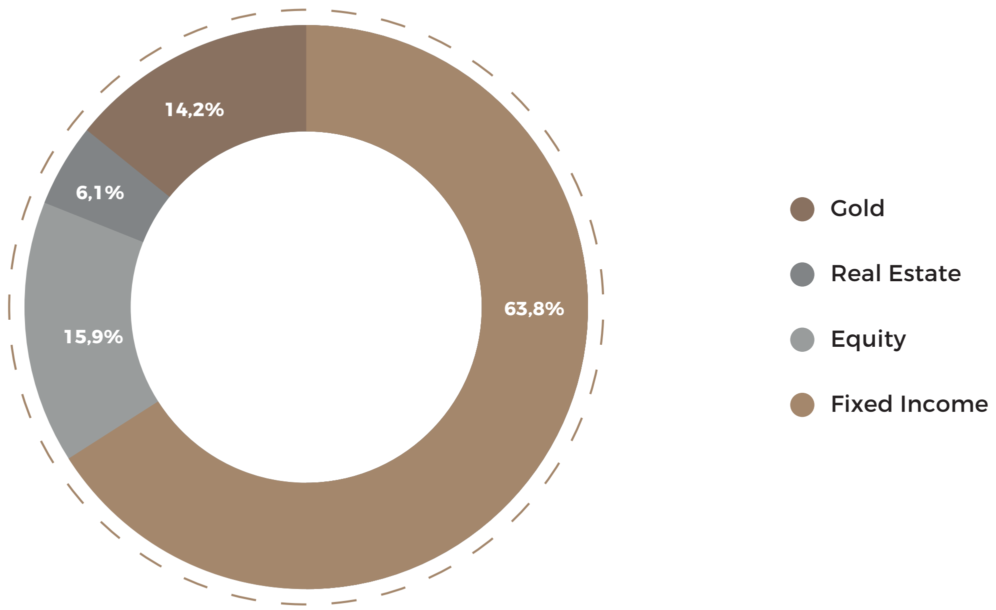


Chart 2.4. Asset allocation (as percentage of Investment portfolio, as of 31.12.2020)



MEDIEVAL PERIOD

The Arab Caliphate invaded Azerbaijani territory in the 7th century. For 21 years the Khurramite movement, led by Babak, was a nightmare for the caliphate. Though it was suppressed, the movement's influence weakened the caliphate's position in Azerbaijan, which soon led to the establishment of new states.

The state of the Shirvanshahs united all of Northern Azerbaijan under its rule. Described as "the longest-lived state in the Islamic world" in some sources, it lasted nearly seven centuries, from 861 to 1538.

Another state established in the territory of Azerbaijan during the feudal fragmentation period was the Shaddadid state. The 15-span Khudafarin Bridge in Karabakh's Jabrail district was built in 1027 by Shaddadid ruler Fadl ibn Muhammad. The strategically important bridge is a unique architectural monument, which embodies the style of the Azerbaijani architectural school.

In 1066, the whole territory of Azerbaijan was incorporated into the Great Seljuk Empire. The Shirvanshahs secured their existence by becoming a vassal state of the Seljuks. The Atabay (Eldanizid) state, which emerged after the disintegration of the empire, covered swathes of Azerbaijan. In the second quarter of the 12th century, the territory of Karabakh was incorporated into the Atabay state. This was a period of economic revival for the whole of Azerbaijan, including Karabakh and Nakhchivan.

Karabakh was a winter residence for the rulers of the Garagoyunlu and Aghgoyunlu states established in Azerbaijan in the Middle Ages. Turkic language and literature flourished in these states.

In 1501, the Safavid state, the most powerful state in the history of Azerbaijan, was founded. The Safavid state was divided into large administrative units called *beylerbeyliks*, one of the most important of which was the Karabakh Beylerbeylik, with its capital, Ganja.

The Karabakh School shaped the further development of medieval Azerbaijani architecture. Urban planning, architecture and decorative applied arts began to develop, and literature thrived. More than 2,000 historical and cultural monuments, mostly from the Islamic period, have been found in Karabakh.

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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 2020, the Supervisory Board of SOFAZ took a number of decisions regarding the SOFAZ's activities. The decision of the Supervisory Board of SOFAZ as of 29 June, 2020 approved SOFAZ's annual report for 2019 and the independent Auditor's ("Pricewaterhousecoopers Audit Azerbaijan" LLC) Report on SOFAZ's financial activities and recommended SOFAZ's 2019 budget execution project (along with the opinion of the Audit Chamber of the Republic of Azerbaijan on the execution of the 2019 budget) for the approval by the President of the Republic of Azerbaijan. At the same time, on 20 August, 2020 the Supervisory Board took a decision to make changes to the Oil Fund's budget for 2020 and recommended it for the approval by the President of the Republic of Azerbaijan.

The following meeting of the Supervisory Board of SOFAZ took place on December 26, 2020. At the meeting, the Board, having viewed the SOFAZ's 2021 budget project (including the major directions of use of SOFAZ's assets and investment policy) as well as the SOFAZ's draft operational expenditures plan, recommended them for the approval by the President of the Republic of Azerbaijan. Moreover, a new project aimed at improving the rules on management of the Fund's foreign currency assets was approved and presented to 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

Adil Aliyev
Deputy Chair of the Milli Majlis

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

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

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.

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 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.

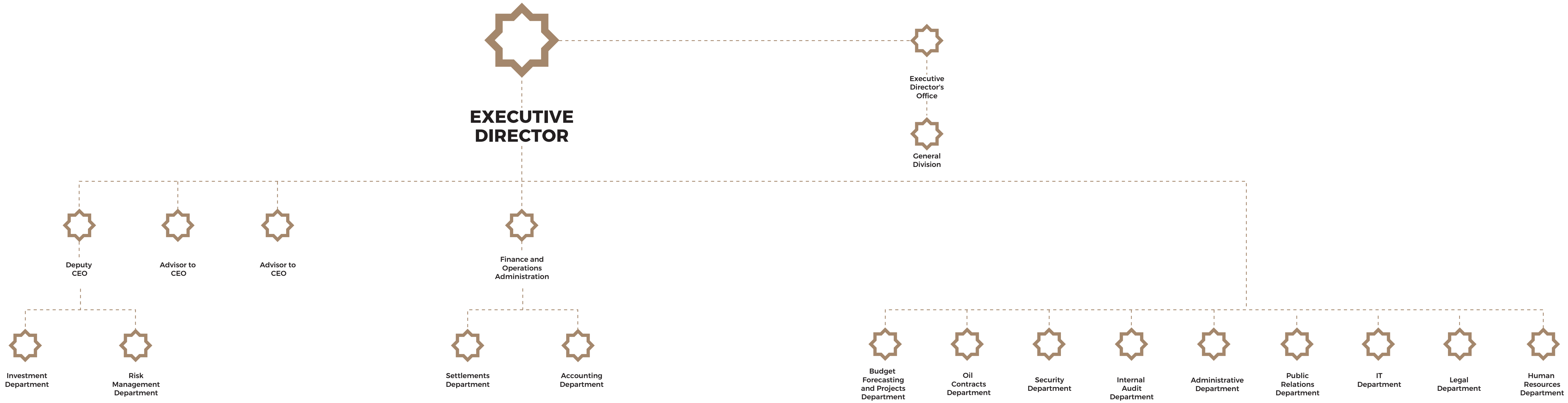
ADVISOR TO EXECUTIVE DIRECTOR

Mr. Bahruz Bahramov was appointed Advisor to SOFAZ's CEO on September 1, 2020.

SOFAZ ORGANIZATIONAL STRUCTURE

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

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".

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.

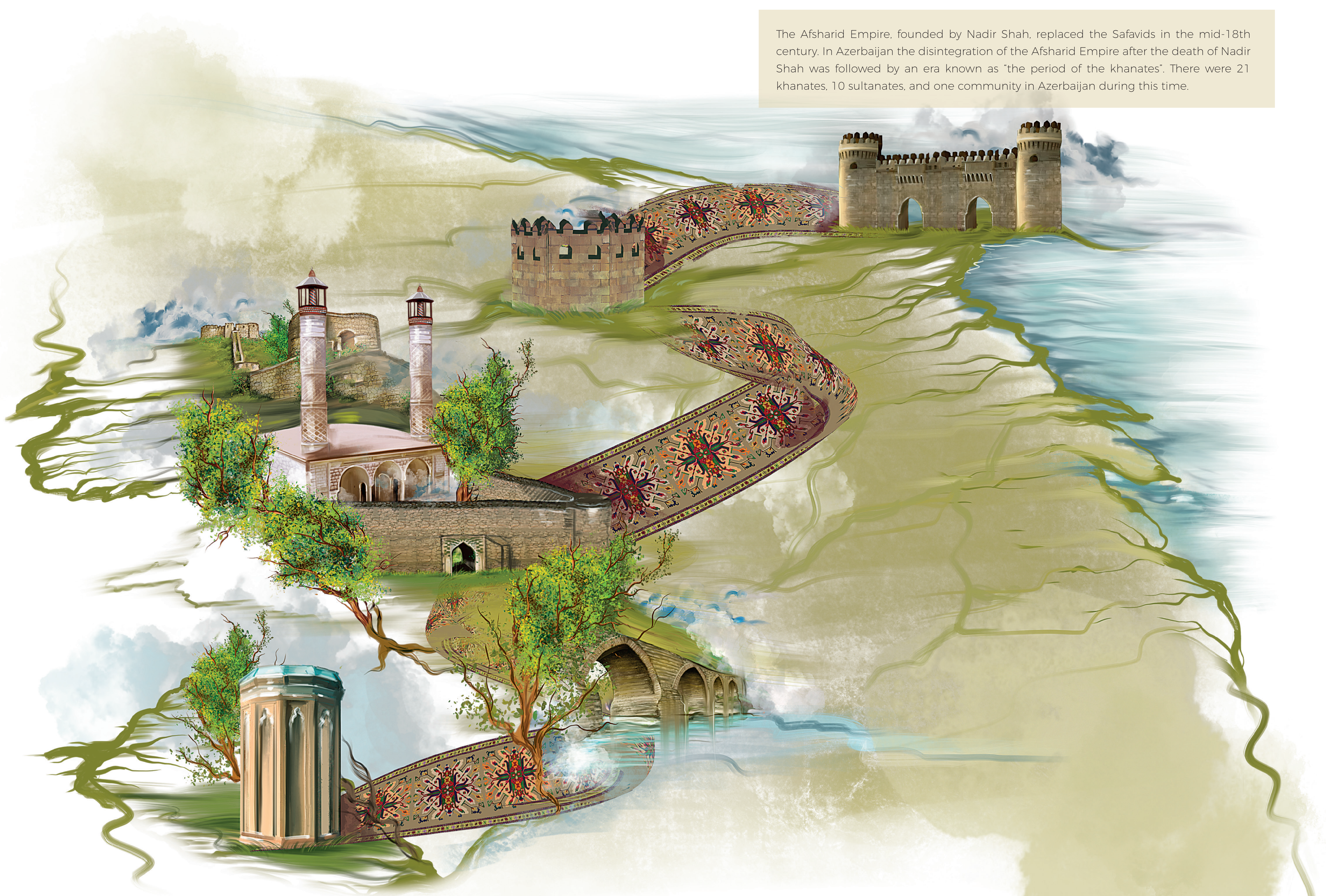
IFSWF held its 11th annual meeting in Alaska's capital Juneau, hosted by the Alaska Permanent Fund Corporation (APFC) on September10-13, 2019. The event was attended by more than 70 representatives of 32 IFSWF members, representing financial and development institutions. During the meeting, IFSWF members voted for the 2021 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 is planning to host 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.

THE KHANATES' PERIOD

The Afsharid Empire, founded by Nadir Shah, replaced the Safavids in the mid-18th century. In Azerbaijan the disintegration of the Afsharid Empire after the death of Nadir Shah was followed by an era known as "the period of the khanates". There were 21 khanates, 10 sultanates, and one community in Azerbaijan during this time.



The Karabakh Khanate, one of the most important khanates in Northern Azerbaijan, was established in 1747 by Panah Ali Khan, a descendant of Javanshir. The Karabakh Khanate consisted of 21 districts *(mahals)* and five kingdoms *(melikliks)*. Panah Ali Khan set about reinforcing Karabakh's defences. He built Bayat fortress in Kabirli (Tartar district) in 1748 and Shahbulag fortress (Aghdam district) in 1751. In 1751-1752 he built the fortress of Shusha, or Panahabad as it was initially known. In Shusha the Karabakh Khanate had a near-impregnable stronghold.

The khans built public and religious buildings too. The Juma Mosque was erected in Shusha in 1768-1769 by the order of Ibrahim Khalil Khan, son of Panah Ali Khan. It was renovated in the 19th century by Ibrahim Khalil's daughter Govhar Agha, and is still known as Govhar Agha Mosque. Aghdam's Juma Mosque, typical of the Karabakh style, was built in 1868-1870 as the region became an important trade centre.

Agha Mohammad Shah Gajar conquered Shusha in 1797, which allowed him to control Karabakh for a short period. The attacks of the Gajars, internal strife and wars between the Gajar and Russian empires wore down the Karabakh Khanate. In 1805 Ibrahim Khalil Khan signed the Treaty of Kurakchay with the Russian Empire, which was essentially an act of surrender.

Carpet-weaving was one of the most important crafts in the Karabakh Khanate. The distinctive patterns and colours of Karabakh carpets were renowned throughout Azerbaijan and abroad. Literature and music flourished too, especially during the reign of Ibrahim Khalil Khan. Karabakh poets such as Molla Panah Vagif and Ibrahim Khalil Khan's daughter Agabeyim Agha were inspired by oral folk literature, especially the poetry of the *ashugs* or minstrels.

Khurshudbanu Natavan, daughter of the last khan of Karabakh, was highly respected among the people both as a philanthropist and a poet. She was also an accomplished artist and embroiderer. Though few samples of her work survive, they make a valuable contribution to Azerbaijani culture. Prominent French writer Alexandre Dumas met Khurshudbanu Natavan when he visited the region, and mentions the encounter in his book *Voyage to the Caucasus*.

Horse-breeding was an important branch of the khanate's economy. Karabakh horses with their distinctive golden coats were famed throughout the South Caucasus for their endurance, agility, speed and beauty. The British bought Karabakh horses for racing and the cavalry.

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4. NATIONAL ECONOMY AND SOFAZ

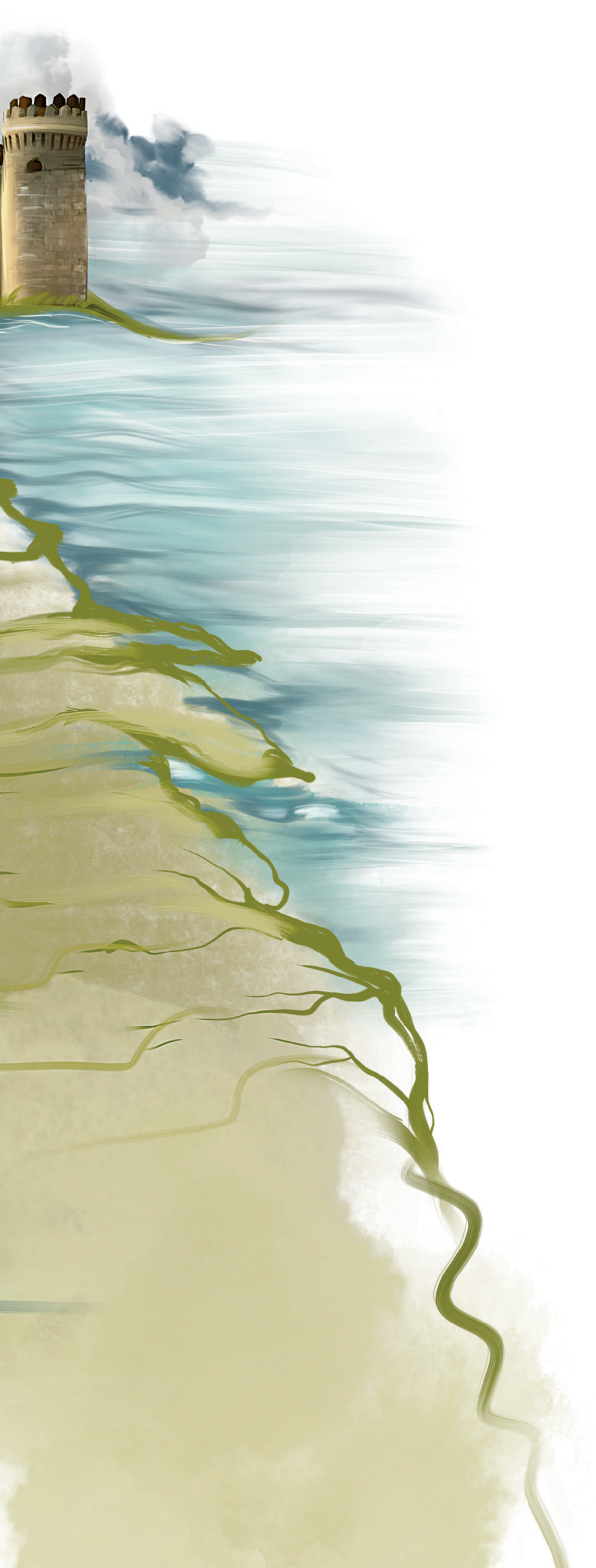
4.1. MACRO-ECONOMIC DEVELOPMENT

Oil Markets

The proliferation of the COVID-19 pandemic in 2020 and severe measures taken by most countries to fight it, have resulted in a strong downturn of the global oil market, posing significant problems to the oil exporting countries. While by the end 2019 the price per barrel of oil rose to USD 64, the highest level since 2015, last year it fell to USD 41 under a number of pressures. Due to the lockdown measures implemented all over the world, in the period of March-April Brent oil price dropped down below USD 20 per barrel against the backdrop of global transportation and tourism volumes shrinking by up to 80% and respective slump in demand for oil. However, a number of factors, such as the agreement of the OPEC+ countries on considerable and sustained production cuts, certain resurgence of oil demand in summer and autumn, as well as the decline of shale oil production in the USA, have helped to somewhat restore the oil market balance and in the end of the year average price accounted for USD 41. Hence, the GDP decline in the resource exporting countries was rather more pronounced than the global average. The World Bank (WB) estimated the GDP decline in this group of countries to constitute 4.8% on average.

For the aforementioned reasons, 2020 has been extremely hard in terms of global development, as the world GDP fell by a much bigger margin than during the financial crisis of 2008-2009. According to various experts, the current pandemic has been the second most damaging event for the global economy during the last 100 years, behind the Second World War only. The global GDP registered a 3.3% decline, which is a way below GDP growth figures for 2019 (2.8%) and 2018 (2.3%). More specifically, GDP decreased by 4.7% in developed countries and 2.2% in the group of Newly industrialized and developing countries. However, if China, the only country that has achieved economic growth among the major countries, is excluded in this calculation, the Newly industrialized and developing countries would be -5.0%.

The World Bank predicts the global growth to equal 4.0% in 2021 (3.3% and 5.0% in Developed countries and Newly industrialized and Developing countries, respectively). IMF, taking a more optimistic approach, forecasts the global growth of 5.5% (4.3% and 6.3% in Developed countries and Newly industrialized and developing countries, respectively). The World Bank's prediction for the Azerbaijani GDP is the growth of 1.9% and 4.5% in 2021 and 2022, respectively.



Fiscal response to the covid-19 crisis

The special feature of the economic crisis brought about by COVID-19 is that it created a demand shock as well as a supply shock. On the demand side, people were more cautious of going out for shopping, eating and travelling, and so they spent less on these activities. On the other hand, governments imposed restrictions on business activities, artificially cutting their supply. In the pandemic shock, however, stimulating demand directly made no sense, given that many businesses were simply forbidden to operate as usual; hence, fiscal policy acquired a particularly important role for helping economies and citizens to withstand the crisis.

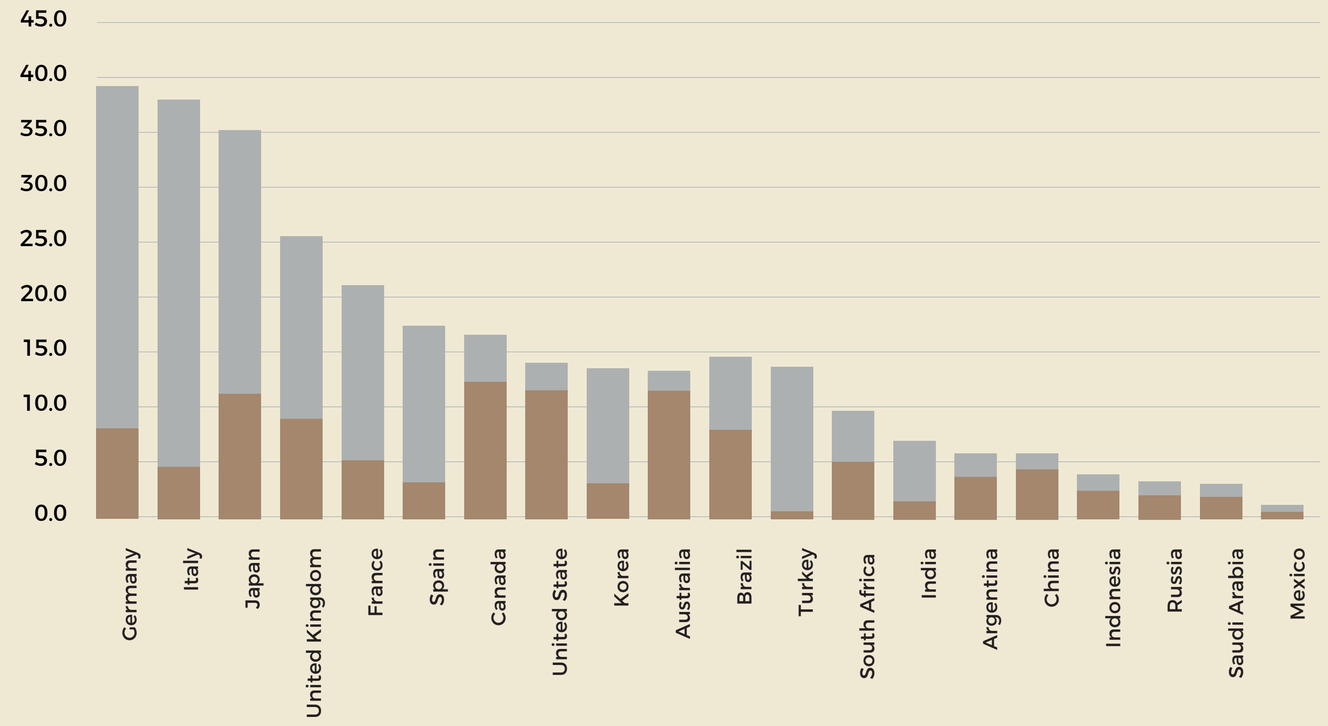
Discretionary fiscal measures can be divided into three groups:

Immediate fiscal impulse: these measures included additional government spending (such as medical resources, keeping people employed, subsidizing SMEs, public investment) and foregone revenues (such as the cancellation of certain taxes and social security contributions). These types of measures immediately lead to deterioration of the budget balance without any direct compensation later. For example, a lot of countries have significantly relaxed conditions demanded for getting a temporary unemployment benefit and stopped making distinction between unemployment of different origin, covering all of them with the benefits of identical value.

Deferrals: several countries have decided to defer certain payments, including taxes and social security contributions, to be paid back later. These measures improve the liquidity positions of individuals and companies but do not cancel their obligations. A few countries have also deferred the servicing of loans or the payment of utility bills. These measures also have budgetary implications: the fiscal balance was expected to deteriorate in 2020, to be improved upon economic recovery. A similar approach has been implemented on the macro-fiscal issues: for example, most European countries have delayed the execution of their fiscal rules until the end of the current crisis.

Other liquidity support measures include export guarantees, liquidity assistance and special credit lines and are often conducted through national development banks. These measures are predominantly aimed at improving the financial position of the private sector, but unlike deferrals which are applied on an automatic basis, they require action from the impacted companies. Credit lines and guarantees might not weaken the budget balance in 2020, but would create contingent liabilities in future.

The ratio of the anti-crisis spending of various countries to their GDP (%)



SOURCE: IMF FISCAL MONITOR, OCTOBER 2020

The fiscal cost of the support measures is huge. For example, only U.S. spent more than USD 3 trillion (or 15% of its GDP) on the respective policies. Among the channels created to provide help for households and companies were supplemental unemployment guarantees, special payments to those falling outside of the standard benefit programs' framework (individual entrepreneurs, freelancers), as well as the The Paycheck Protection Program, which provided forgivable loans to small businesses. The following fact indicates that the fiscal response was successful: although U.S. had biggest contraction on record in the second quarter of 2020, with real GDP declining by 31% at an annual rate, personal income slightly increased during this period.

There are three major reasons why low-income and developing countries have faced much more severe challenges during the pandemic. The first of them is scale: poverty rates there are much higher, in developing countries, so there are far more people in need of help. The COVID shock jeopardized the livelihood of a larger contingent than in rich nations. Prohibiting economic activity means depriving tens of millions of their meagre source of income. Moreover, not as many jobs can be done at home in developing countries as in developed countries. The second reason is the high degree of informality in the majority of developing economies. Most workers are unknown to fiscal service, while there is also uncertainty as to how much money is needed to support the needy. The third reason is weak public finances. Reliance on commodities, tourism and remittances makes some of these countries' economies particularly vulnerable in a global shock such as COVID. While advanced countries may issue debt denominated in their own currencies, developing countries have to resort to foreign-denominated debt to attract investors, significantly raising risks of currency devaluations which put public finances under severe strain. Some countries, such as Argentina, Venezuela, Iran, Lebanon, and many others, had to default on their debts even prior to the coronavirus crisis due to the dramatic rise of their public debt.

The urgency of all these problems makes it vital, in order to overcome the pandemic-caused crisis, not only to provide large financial support but also to conduct sound and calculated fiscal policies. Most large countries managed to successfully avoid the uncontrolled rise in unemployment and bankruptcy through economic policy measures in 2020. However, proper management of the post-pandemic stage won't be easy at all: the challenge will be not cutting financial support in an abrupt way while also facilitating fair resource reallocation and create favorable conditions for sustainable growth.

NATIONAL ECONOMY AND SOFAZ

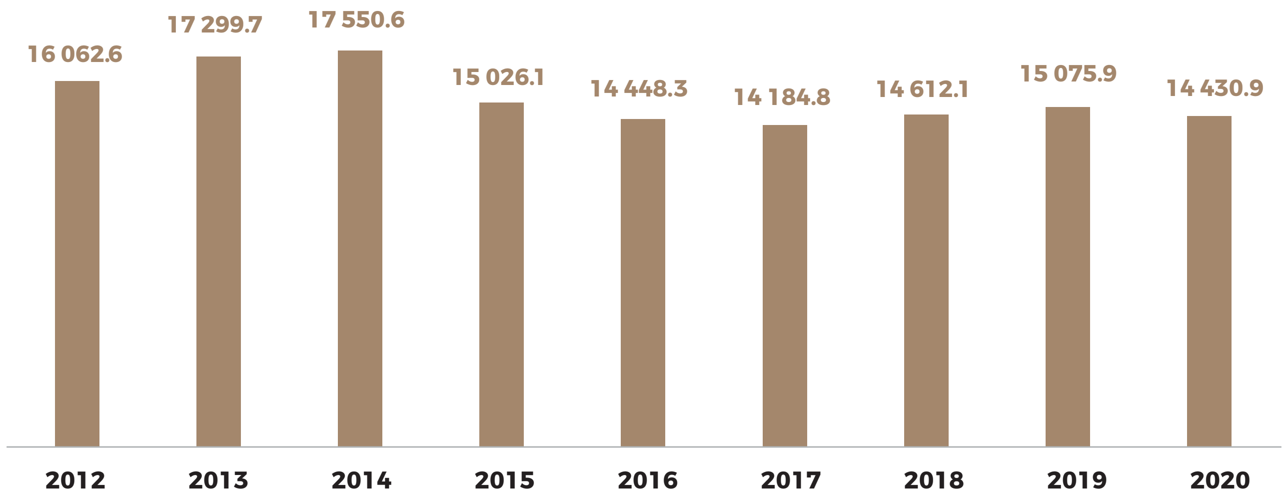
In accordance with its purposes and responsibilities, in 2020 SOFAZ maintained accumulation and management of the revenues stemming from the execution of the oil and gas contracts, for future generations. Thus, against the backdrop of the oil price stability as well as the record high level of the revenues from asset management, the Fund has recorded a significant increase in its revenues.

Throughout 2020, the exchange rate of the manat against the US dollar equaled 1.70 and remained unchanged throughout the year. Average annual inflation rate in 2019 constituted a moderate 2.8%. The GDP of Azerbaijan fell to AZN 72 432.2 million in nominal figures, have declined by 4.3% in real terms (to compare, the GDP growth constituted 2.2% in 2019 and 1.4% in 2018).

In 2020, the GDP per capita constituted AZN 7 262.8, having shrunk by 5.0% in real terms since the previous year (To compare, in 2019 annual GDP had grown by 1.4%). At the same time, the GDP per capita adjusted to purchasing power parity (PPP), as estimated by the IMF, fell by 5.4% and amounted to USD 14 430.9 . The nominal income of the population decreased by 1.8%, compared to 2019, reaching AZN 55726.1 million. The income per capita fell by 2.5% and equaled AZN 5 587.6, whereas the average nominal monthly salary rose by 11.4% up to AZN 707.3.

After all mandatory and voluntary disbursements, the overall disposable income of the population amounted to AZN 50 689.6 million, or 2.9% lower than in 2019 in nominal terms. The 70.1% of the country's GDP fell into the non-oil sector share.

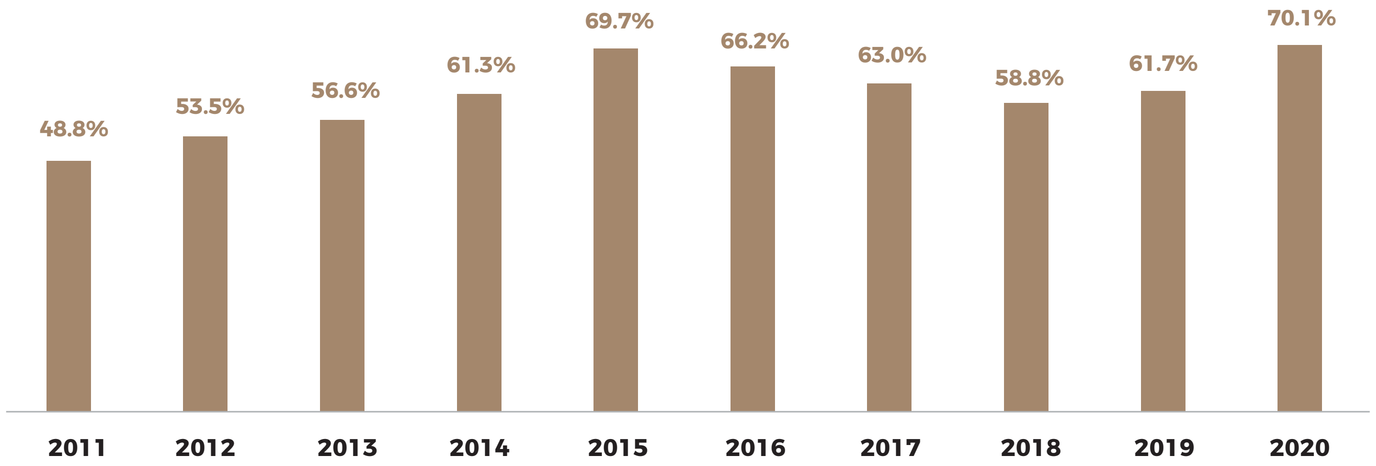
Chart 4.1.1. GDP per capita adjusted to purchasing power parity (in current international dollars)



SOURCE: IMF

The structure of the GDP, which in 2020 totalled AZN 72 432.2 million, was as follows: 48.3% fell into the share of the production of goods, 42.0% to services, while net taxes on goods and imports accounted for the remaining 9.7%. Compared to the previous year, the production of value-added in the non-oil sector increased by 2.6% in real terms, while the respective figure for the oil sector equaled 7.0%.

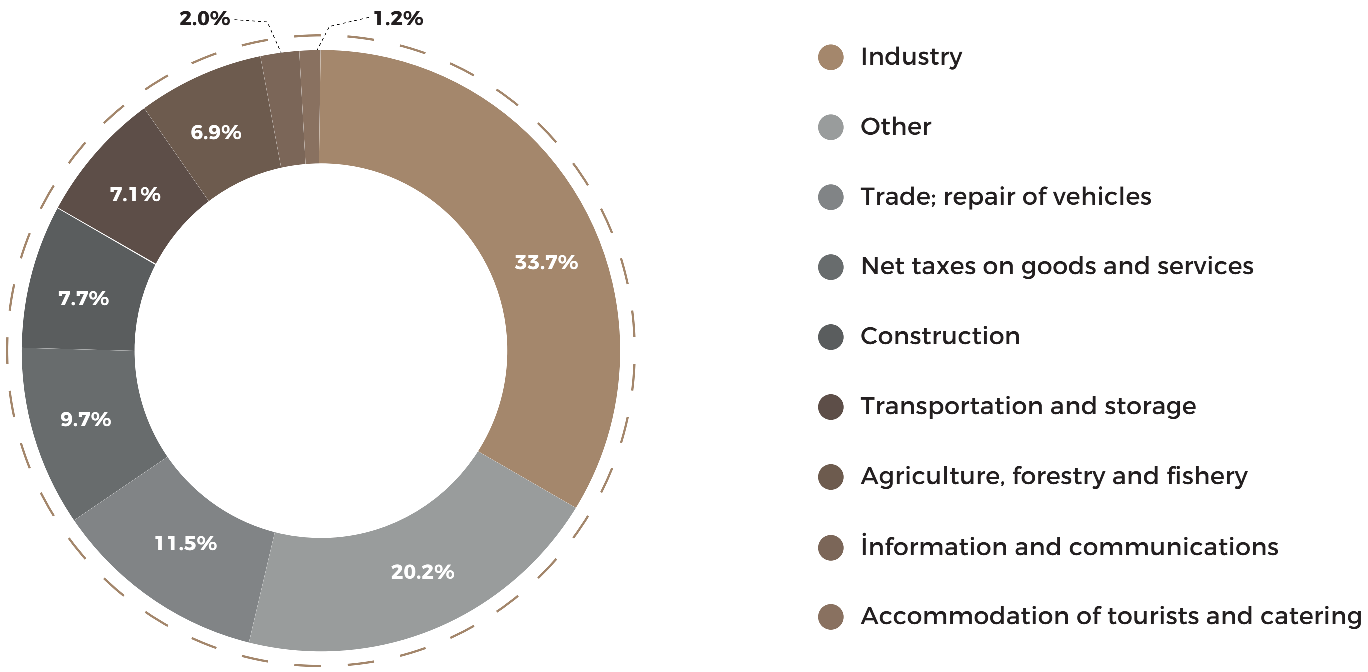
Chart 4.1.2. Share of non-oil sector in the country's GDP



SOURCE: ARSSC

In the last year, a significant dropdown occurred in the oil and gas as well as the service sectors due to the effects of the pandemic and various lockdown measures. At the same time, the production of goods demonstrated a greater sustainability in the face of the crisis. The industrial sector continued to play a leading in the Azerbaijani economy, as its share in the GDP amounted to 33.7%

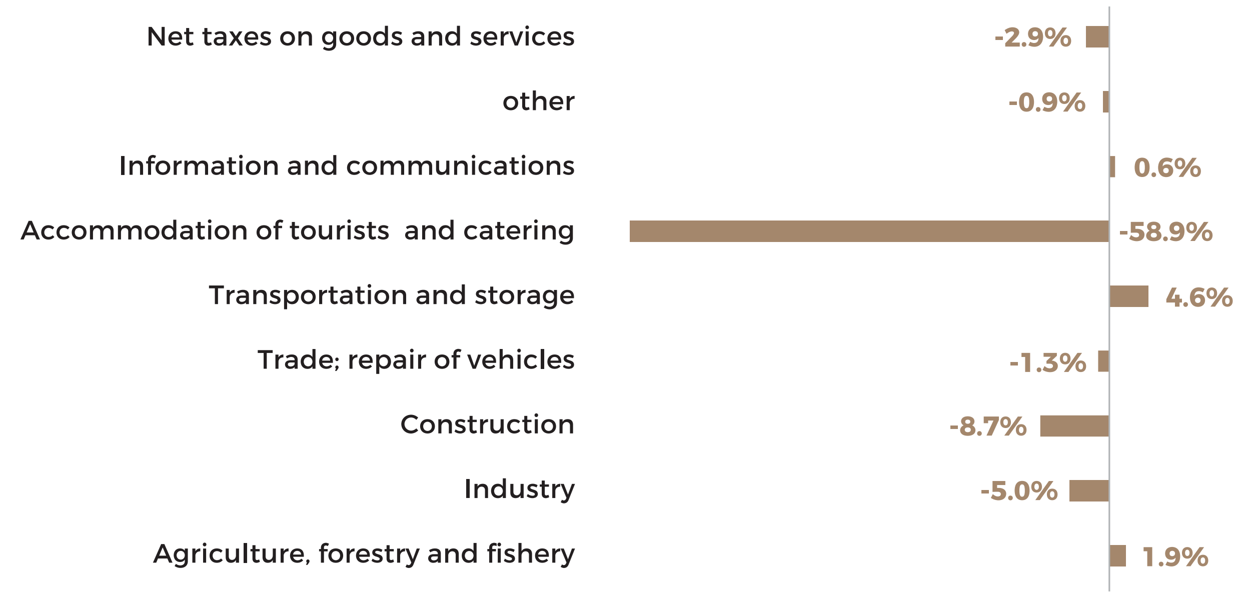
Chart 4.1.3. The GDP structure



SOURCE: ARSSC

In 2020, a decline was registered in most sectors of the Azerbaijani economy. The biggest dropdown happened in the tourism and catering sector (-58.9%). While the industrial sector on aggregate also shrank by 5%, the non-oil industry demonstrated a spectacular growth of 12.5%.

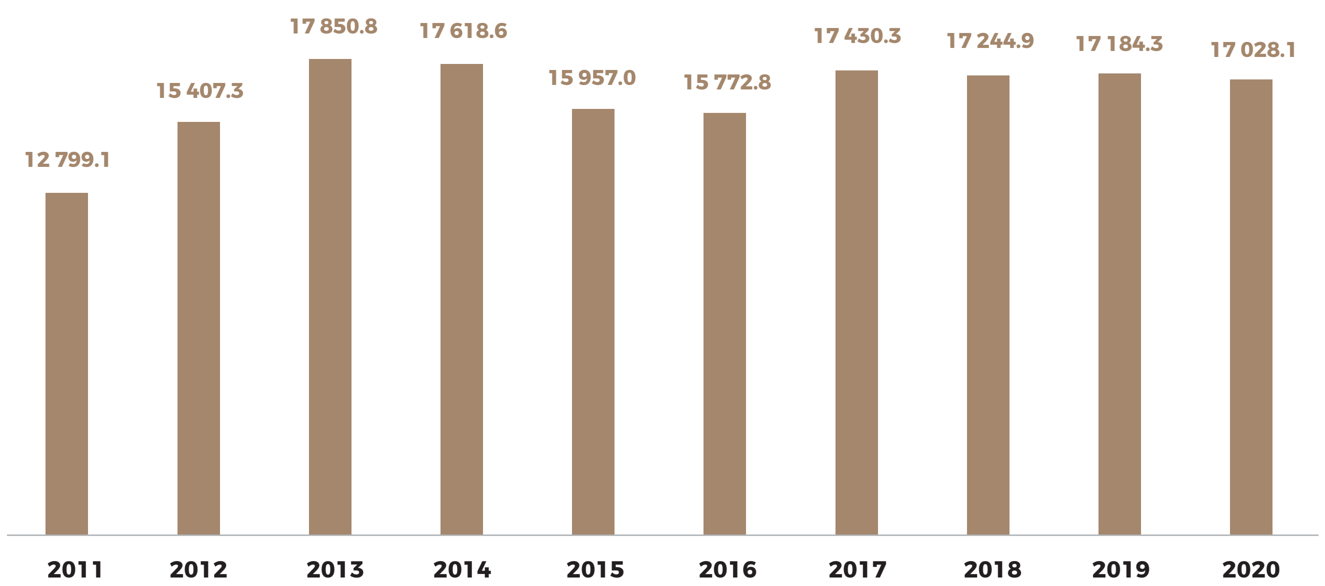
Chart 4.1.4. Sectoral growth rates



SOURCE: ARSSC

In the reference year, the amount of capital investment in Azerbaijan declined by 8.3%, compared to the 2019 figures, and totalled AZN 17 028.1 million. The shares of domestic and foreign investment in this total were 69.9% and 30.1% respectively, and 64.3% of this amount was spent on the execution of construction and installation works.

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



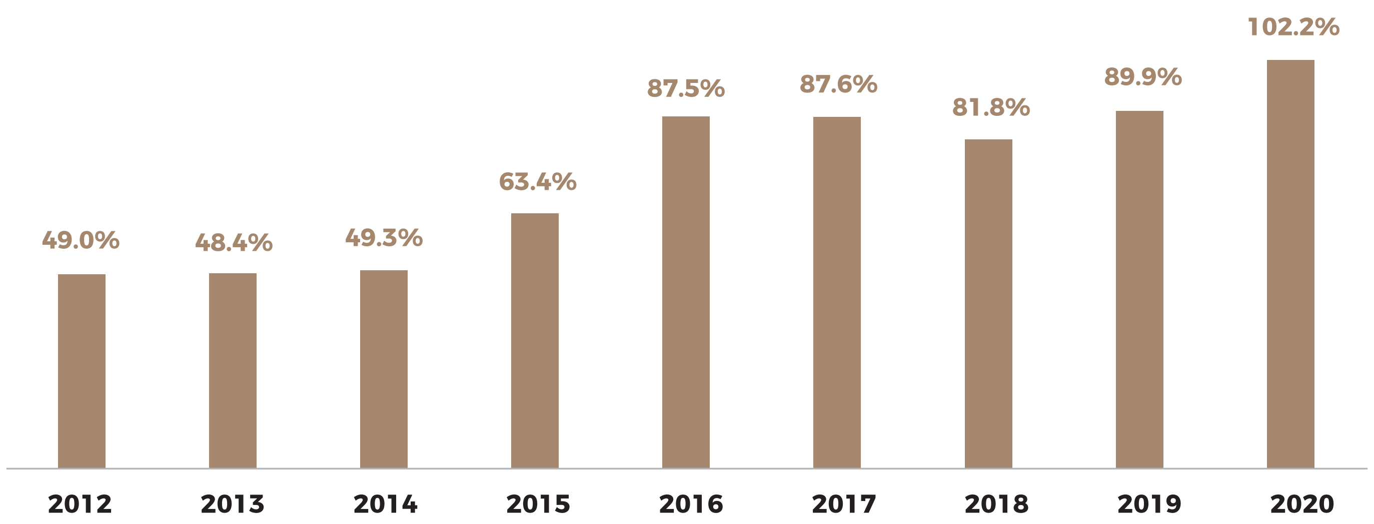
SOURCE: ARSSC AND MOE

STRATEGIC CURRENCY RESERVES

By December 31, 2020, the country's strategic currency reserves (SOFAZ and CBAR combined) reached USD 49 933.7 million, having risen by USD 0.35 bn. or approximately 0.7%, compared to the previous year. 87.2% of these reserves fall into the share of the SOFAZ's assets.

In 2020, the ratio of the SOFAZ's assets by the end-year to the GDP of Azerbaijan constituted 102.2%.

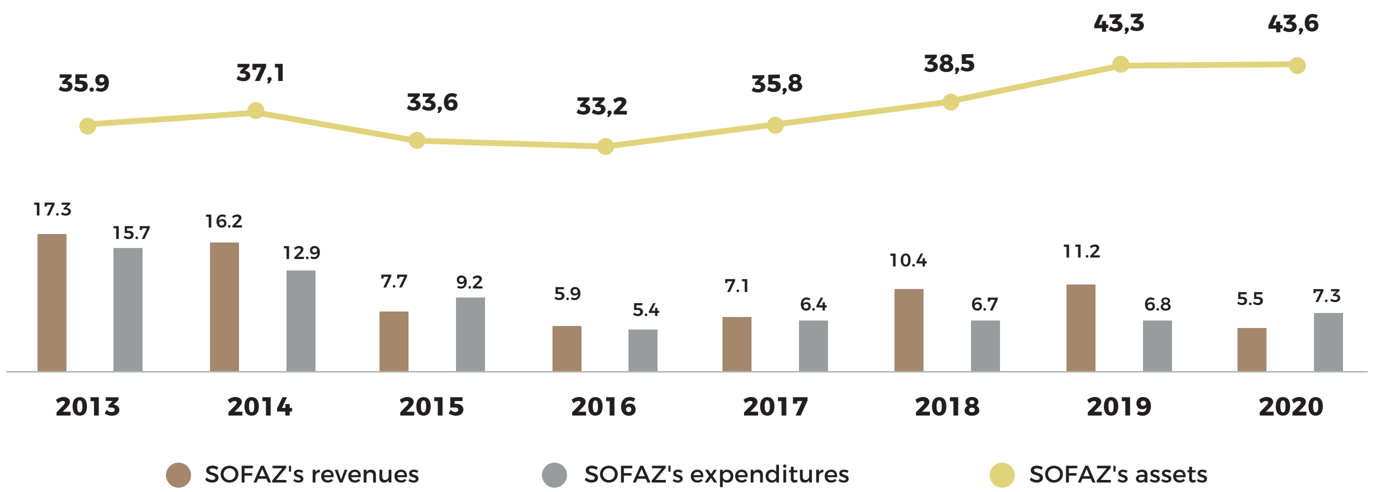
Chart 4.1.6. SOFAZ assets-to-GDP ratio



SOURCE: SOFAZ AND ARSSC

Against the background of a sharp decline in oil prices as compared to the previous years, SOFAZ's assets have remained at a stable level in 2020. As the average annual price per barrel of profit oil amounted to USD 39, the Fund's annual budgetary revenues equaled USD 5.51 billion, and the overall assets constituted USD 43.56 bn.

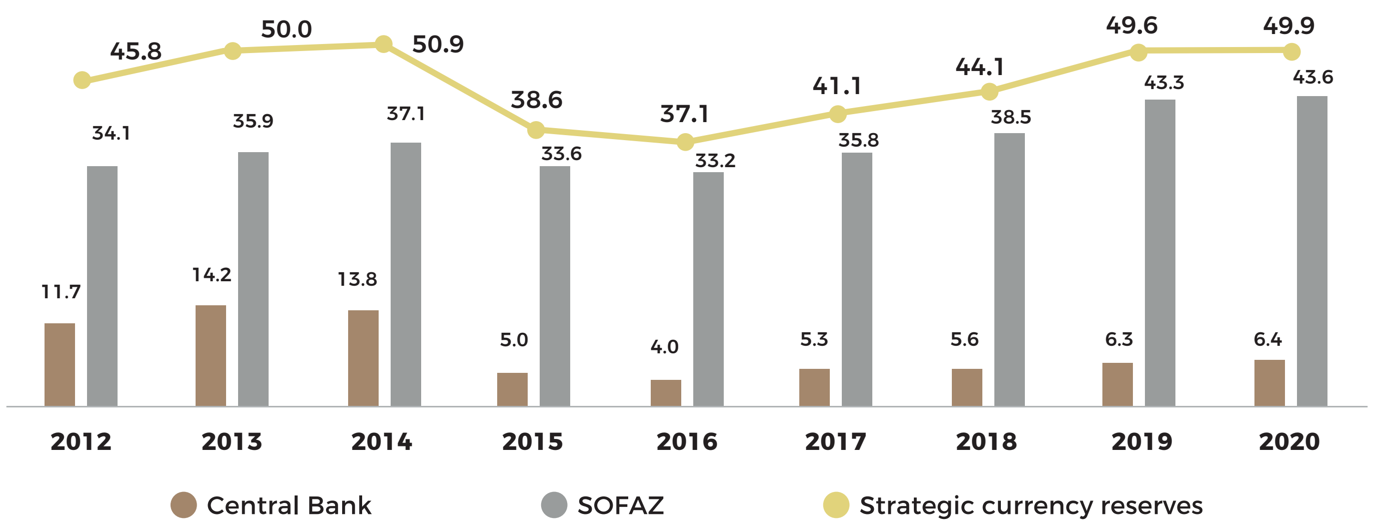
Chart 4.1.7. SOFAZ's revenues, expenditures and assets (USD billion)



SOURCE: SOFAZ

At the same time, official currency reserves of CBAR in 2020 rose by USD 111.4 million (1.8%) from the last-year level of USD 6 258.0 million to equal USD 6 369.4 million. Thus, the aggregate volume of the strategic currency reserves (SOFAZ and CBAR combined) amounted to USD 49.9 billion.

Chart 4.1.8. Strategic currency reserves (USD billion)



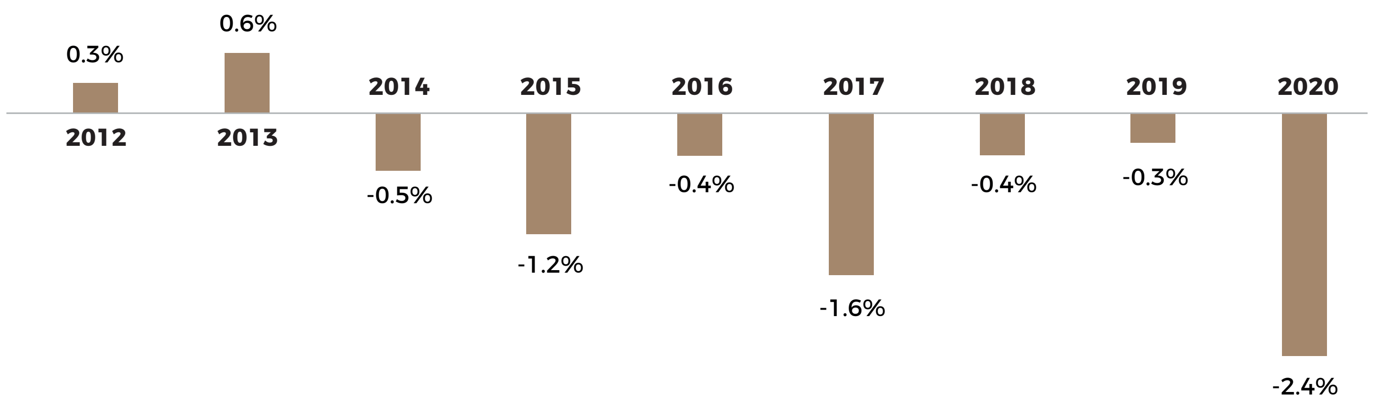
SOURCES: SOFAZ AND CBAR

SECURING FISCAL SUSTAINABILITY

In 2020, SOFAZ played a big role in preserving fiscal balance in Azerbaijan. Thus, AZN 12.2 bn., or 49.4% of the state budgetary revenues were formed out of the transfer from SOFAZ. By providing timely payments to the state budget regardless of oil prices, SOFAZ has managed to secure fiscal stability. 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 24 681.7 million and AZN 26 416.3 million, respectively, and the state budget deficit in - 2020 totalled 2.4% of the country's GDP (AZN 72 432.2 million).

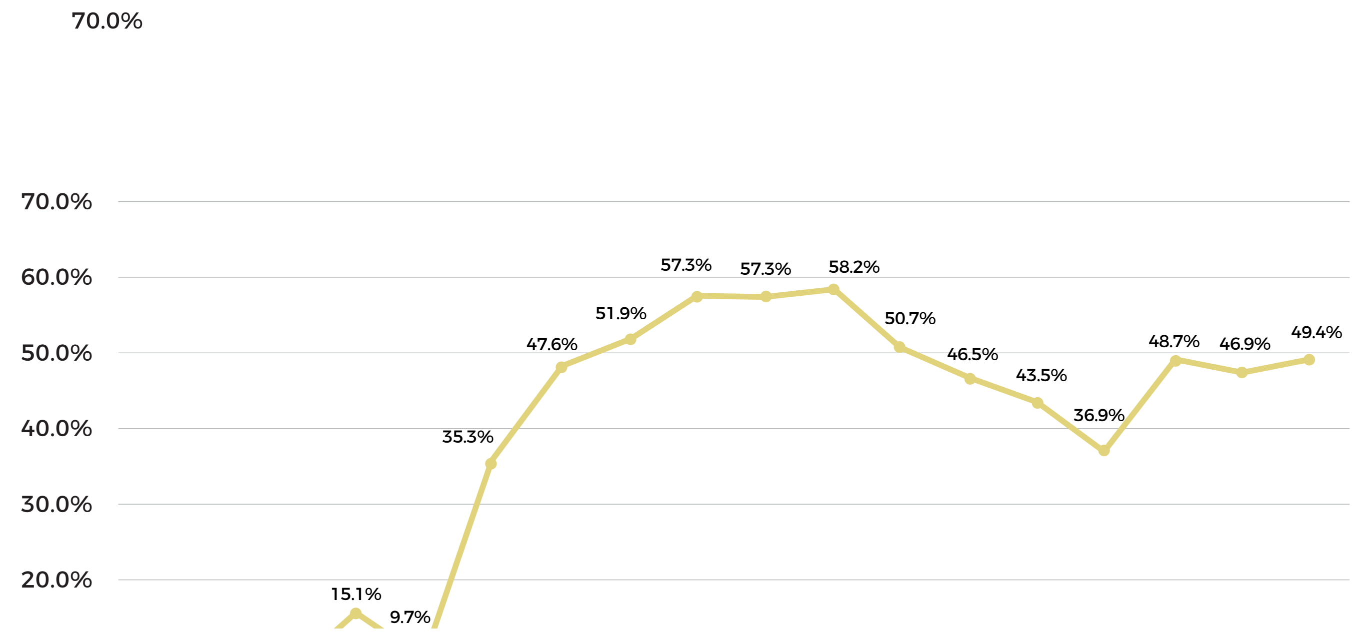
Chart 4.1.9. State budget proficit/deficit in 2012-2020 (share of GDP)



SOURCE: CBAR

During the period from 2003 to 2020, the cumulative transfer from the Fund to the state budget has reached AZN 112.14 billion.

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

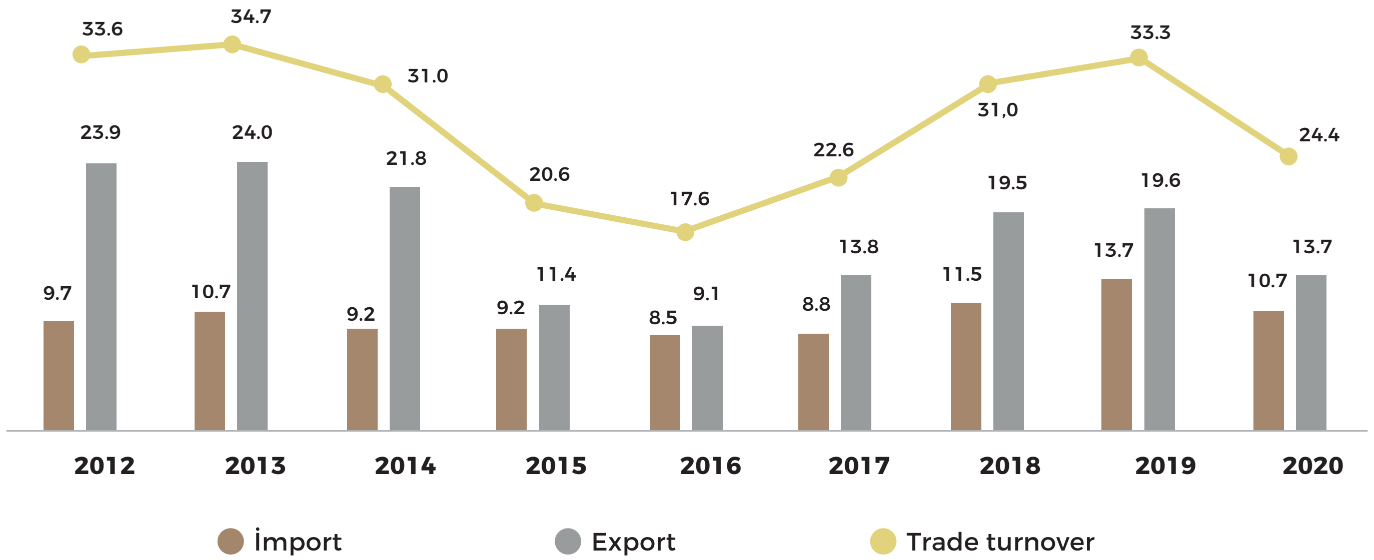


SOURCES: SOFAZ AND ARSSC

FOREIGN TRADE

According to the State Customs Committee of the Republic of Azerbaijan, the country's foreign trade turnover in the reference year amounted to USD 24.47 billion, the exports and imports constituting USD 13.74 billion and USD 10.73 billion, respectively. In the reference year, a decrease in the volume of foreign trade turnover by 26.5%, compared to the relevant indicator of the previous year, was observed, while exports fell by 30.0% and the imports by 21.5%.

Chart 4.1.11. Foreign trade turnover (USD billion)

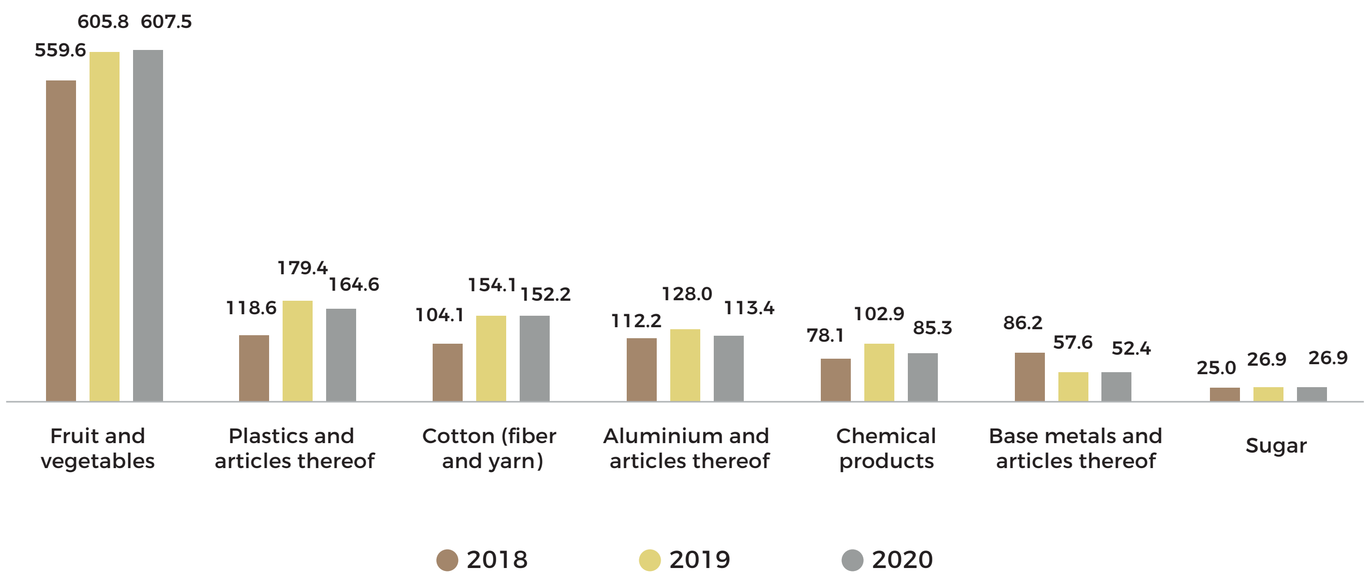


SOURCE: STATE CUSTOMS COMMITTEE

NON-OIL SECTOR EXPORT

In 2020, non-oil export mainly consisted of fruit and vegetables, plastics, aluminium, base metals and items made of them, cotton and chemical products. As the 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)

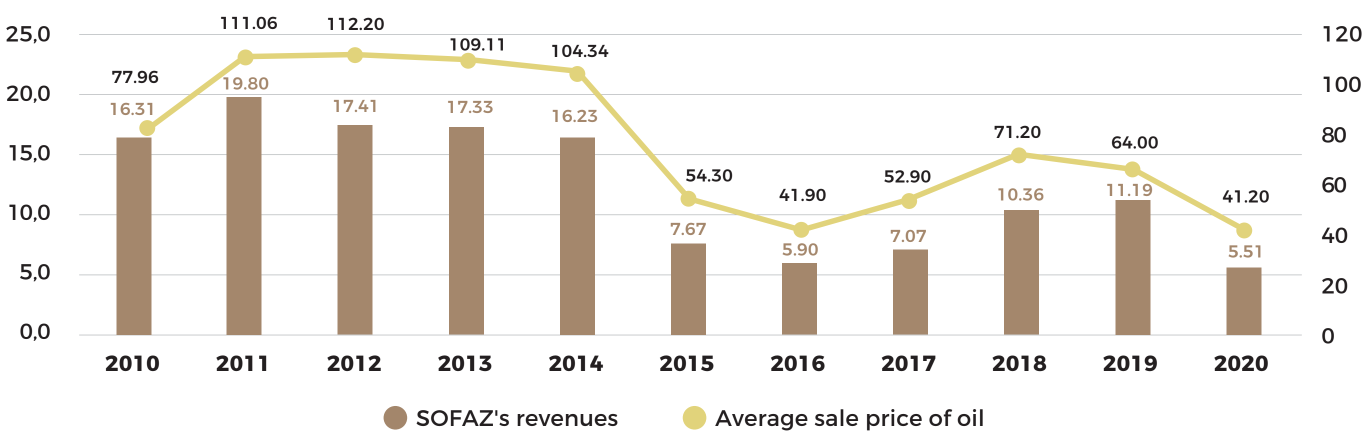


SOURCE: STATE CUSTOMS COMMITTEE

4.2. SOFAZ'S REVENUES

In the reference year, the sources of SOFAZ's 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 2020, SOFAZ's budget revenues constituted AZN 9 360.8 million (USD 5 506.4 million). Compared to the previous year (USD 11 194.5 million), the SOFAZ revenues in 2020 were 50.81% lower in dollar terms.

Chart 4.2.1. SOFAZ's revenues (USD billion) and average sale price of oil (USD)



PROCEEDS FROM THE SALES OF PROFIT OIL AND GAS.

The average annual price of a barrel of crude oil amounted to USD 41.2 in SOFAZ's 2020 budget. Accordingly, in 2020 SOFAZ's budget gained AZN 6 587.3 million or USD 3 874.9 million from the sales of profit oil and gas.

In accordance with the Production Sharing Agreements that regulate oil production both onshore and offshore, 91% of the revenues (or USD 3 522.7 million) generated from the sales of profit oil and gas in 2020, came from the sale of oil extracted from the Azeri-Chirag-Guneshli (ACG) field, while USD 70.5 million was received from the sale of gas from Shah Deniz field, while a sum of USD 223.4 million fell into the share of gas condensate and the remaining USD 16.8 million were earned from the sales of oil extracted from other oil fields. Moreover, within the framework of the execution of the Protocol Agreement on the management of revenues from the share of SOCAR in the Shah deniz, Southern Caucasus pipeline and Southern Gas Corridor projects, concluded between the Ministry of Finance of the Republic of Azerbaijan, Ministry of Economics, State Oil Fund SOFAZ and State Oil Company (SOCAR), the amount of USD 41.37 million that accrued from the difference in price for crude oil sales in 2007-2008, was paid by SOCAR to SOFAZ.

Apart from that, 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 1.135 milion 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 2020 (USD million)

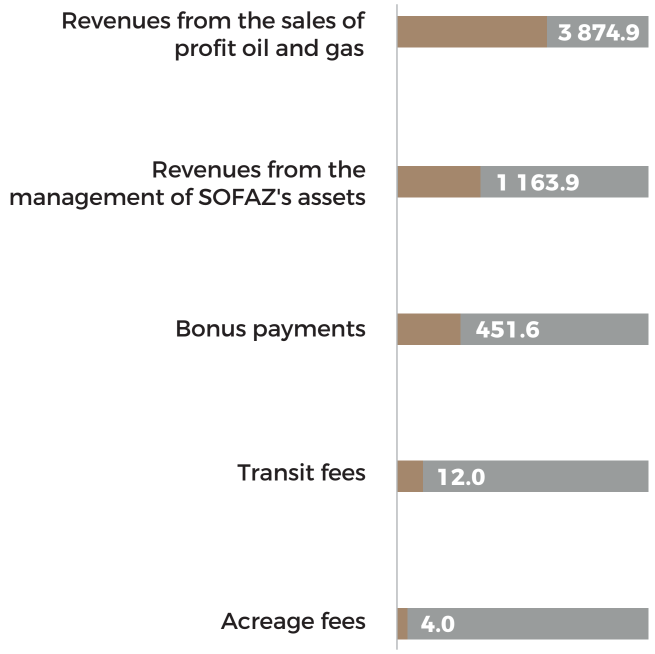
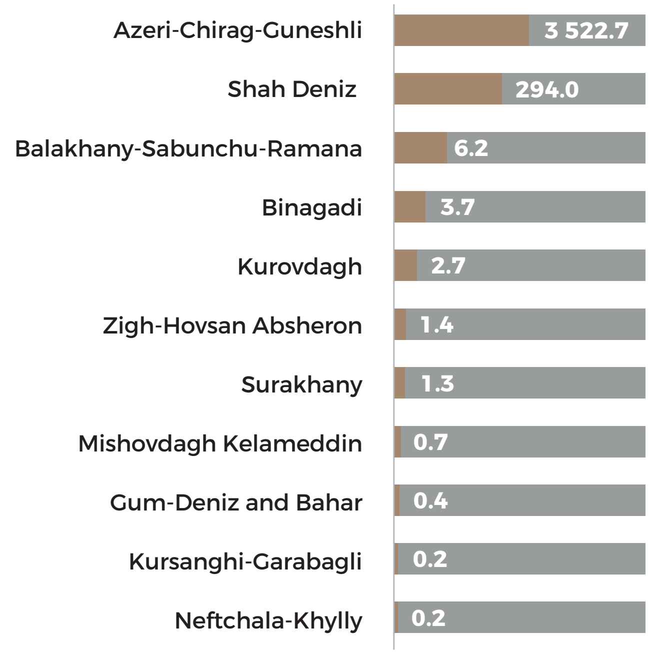


Chart 4.2.3. Revenues from the sales of profit oil and gas (USD million)



Revenues from the management of the Fund's assets. In accordance with SOFAZ's investment policy, in 2020 its assets were invested in fixed income (debt and money market instruments), equities, real estate and gold. The Fund's revenues from asset management totaled USD 1 163.9 million, or AZN 1 978.6 million. In the reference year, the average annual rate of return from the Fund's investment portfolio shrank by 2.47%, compared to 2019 (5.29%), and constituted 2.82%.

Bonus payments. In 2020, SOFAZ's revenues from bonuses paid by investors for signing and fulfilling oil and gas contracts amounted to USD 451.6 million or AZN 767.8 million. Bonus payment inflows are illustrated in the Table 4.2.1.

Table 4.2.1. SOFAZ's proceeds from bonus payments in 2020

Name of issuing organization	Field	Date	Amount	
			mln USD	mln AZN
BP Exploration (Caspian Sea) Ltd.	Azeri-Chiragh-Gunashli	07.01.2020	450.0	765.00
BP Exploration (Caspian Sea) Ltd.	Shah deniz	28.01.2020	0.56	0.96
Petronas	Shah deniz	03.02.2020	0.30	0.52
LUKOIL	Shah deniz	28.01.2020	0.20	0.33
NICO	Shah deniz	29.01.2020	0.20	0.33
TPAO	Shah deniz	30.01.2020	0.37	0.63
Total			**451.63**	**767,77**

Transit fees. In 2020, revenues from the transportation of oil and gas through the territory of Azerbaijan (transit fees) amounted to USD 12.0 million or AZN 20.4 million. Detailed information on this revenue item is provided in the Table 4.2.2.

Table 4.2.2. Proceeds from transit fees in 2020.

Name of issuing organization	Date	Amount	
		mln USD	mln AZN
AIOC	13.01.2020	0.80	1.36
AIOC	12.02.2020	1.09	1.86
AIOC	13.03.2020	1.00	1.70
AIOC	13.04.2020	1.14	1.94
AIOC	13.05.2020	1.09	1.85
AIOC	05.06.2020	1.11	1.89
AIOC	13.07.2020	0.86	1.47
AIOC	12.08.2020	1.12	1.90
AIOC	15.09.2020	0.59	1.00
AIOC	06.11.2020	1.03	1.75
AIOC	16.11.2020	1.09	1.85
AIOC	16.12.2020	1.05	1.78
Total		**11.98**	**20.36**

Acreage fees. In 2020, the amount of USD 3.97 million (AZN 6.75 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 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 2020.

Name of issuing organization	Field	Date	Amount	
			mln USD	mln AZN
BP Exploration (Caspian Sea) Ltd.	Shallow-water area around the Absheron Peninsula	24.04.2020	0.64	1.09
BP Exploration (Caspian Sea) Ltd.	Shafag-Asiman	23.06.2020	2.12	3.60
Equinor	Karabakh	17.03.2020	0.86	1.47
Equinor	Ashrafi-Dan-Ulduzu-Aypara	16.07.2020	0.35	0.59
Total			**3.97**	**6.75**

4.3. SOFAZ'S EXPENDITURES

In 2020, SOFAZ financed the measures related to socioeconomic welfare and resettlement of refugees and IDPs, the Programme for improving the international competitiveness of the higher education system of Azerbaijan, the transfer to the state budget, and provided funding for internal management. In the reference year, the amount of AZN 12 425.3 million (USD 7 308.8 million) in total was spent from the SOFAZ budget. 98.2% of the total budget expenditures accrued for the transfer to the state budget (AZN 12 200.0 million). Financing of social projects and administrative expenses accounted for AZN 204.1 million and AZN 21.2 million, respectively, that made up 1.8% of the total budget expenditures of SOFAZ in 2020. The breakdown of SOFAZ's expenditures is provided in the charts 4.3.1 and 4.3.2.

Chart 4.3.1. Structure of SOFAZ's expenditures in 2020

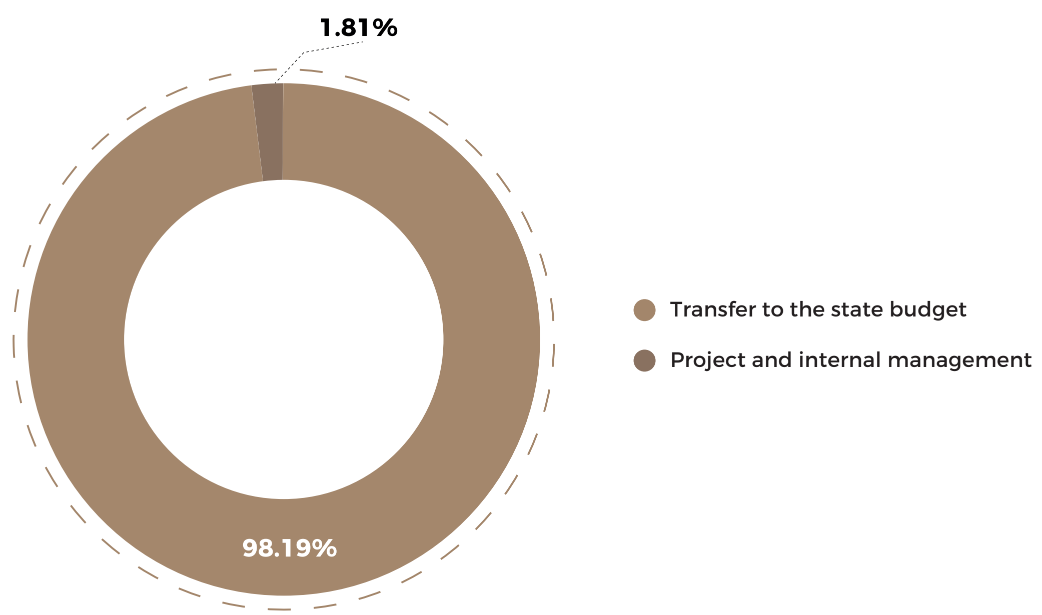
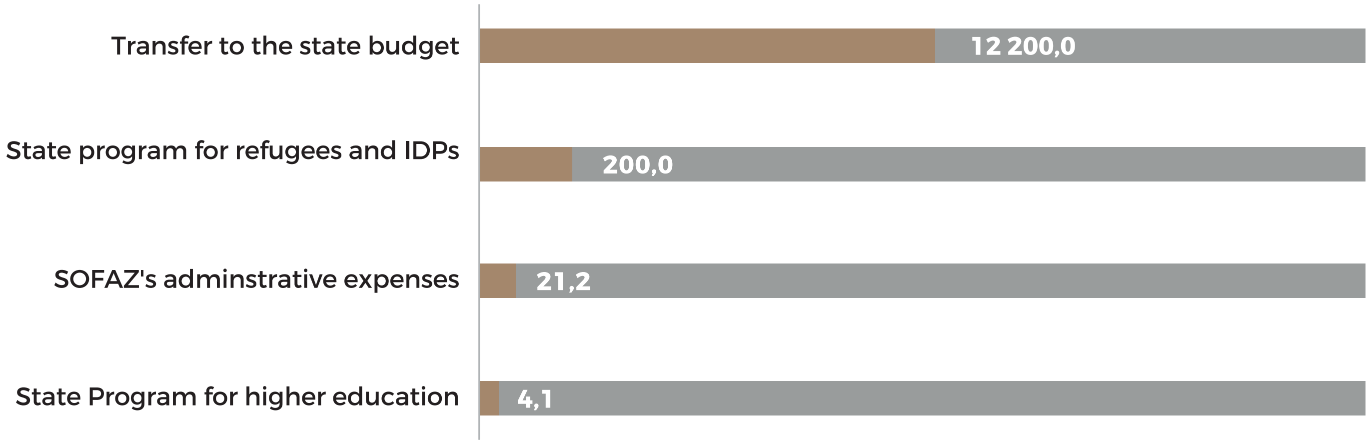


Chart 4.3.2. **SOFAZ's expenditures in 2020 (AZN million)**



Transfer to the state budget. In the reference year, state budget revenues constituted AZN 24 681.7 million, 49.4% of which made up transfers from SOFAZ (AZN 12 200.0 million). The transfer constituted 46.2% of state budget expenditures (AZN 26 416.3 million).

Throughout the years 2003-2020, the overall transfer from the Oil Fund to the state budget amounted to AZN 112.1 billion or USD 106.9 billion, which is 89.0% of all the SOFAZ budgetary expenditures (AZN 126.0 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 2003-2020 are represented in the charts 4.3.3, 4.3.4 and 4.3.5.

Chart 4.3.3. **Transfers from SOFAZ to the state budget (AZN million)**

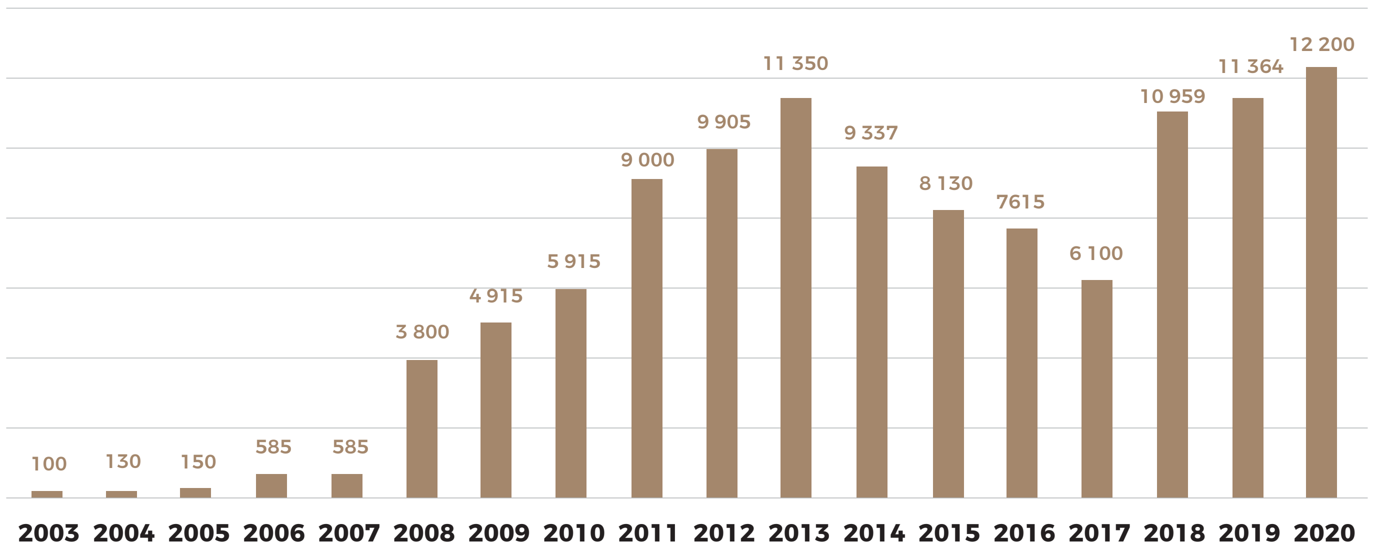


Chart 4.3.4. **Share of the transfer from SOFAZ in the state budget revenues**

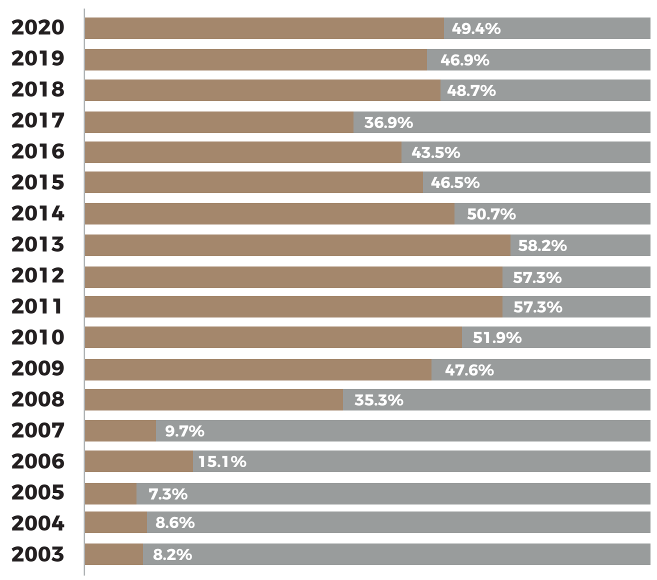
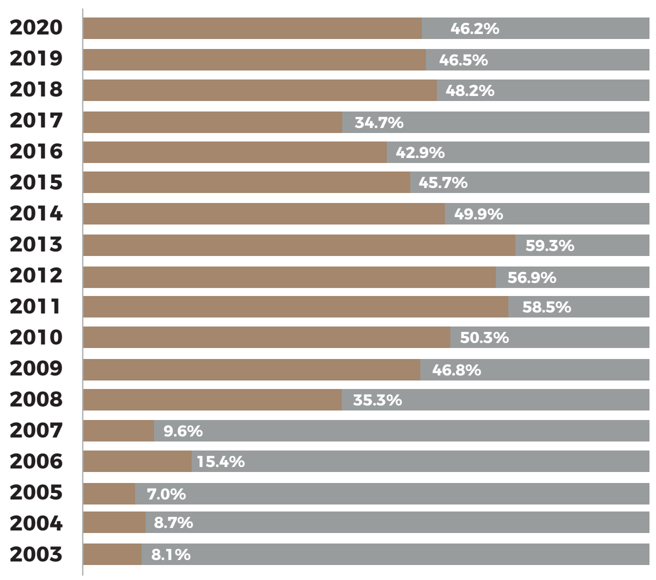
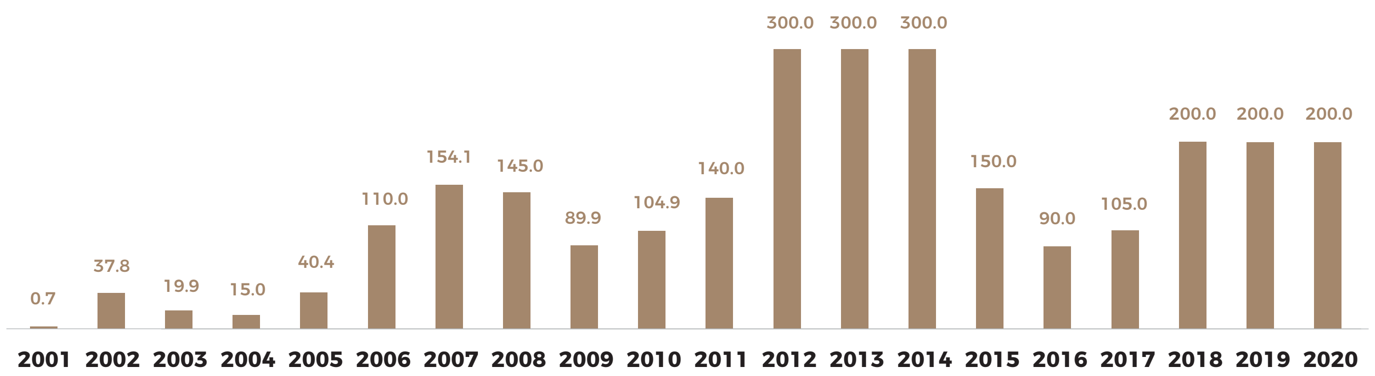


Chart 4.3.5. **Share of the transfer from SOFAZ in the state budget expenditures**



The improvement of the socioeconomic conditions of refugees and internally displaced persons (IDPs). "The State Program on the improvement of the socioeconomic conditions of refugees and internally displaced persons" has been financed by SOFAZ since 2001. Overall, AZN 2 702.7 million has been spent on this program throughout the period of 2001-2020 (Chart 4.3.6). More specifically, the amount allocated to the improvement of the living conditions of refugees and internally displaced persons constituted AZN 200 million in the reference year. The breakdown of the annual expenditures on the State Programme since 2001 is presented in the Chart 4.3.6.

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

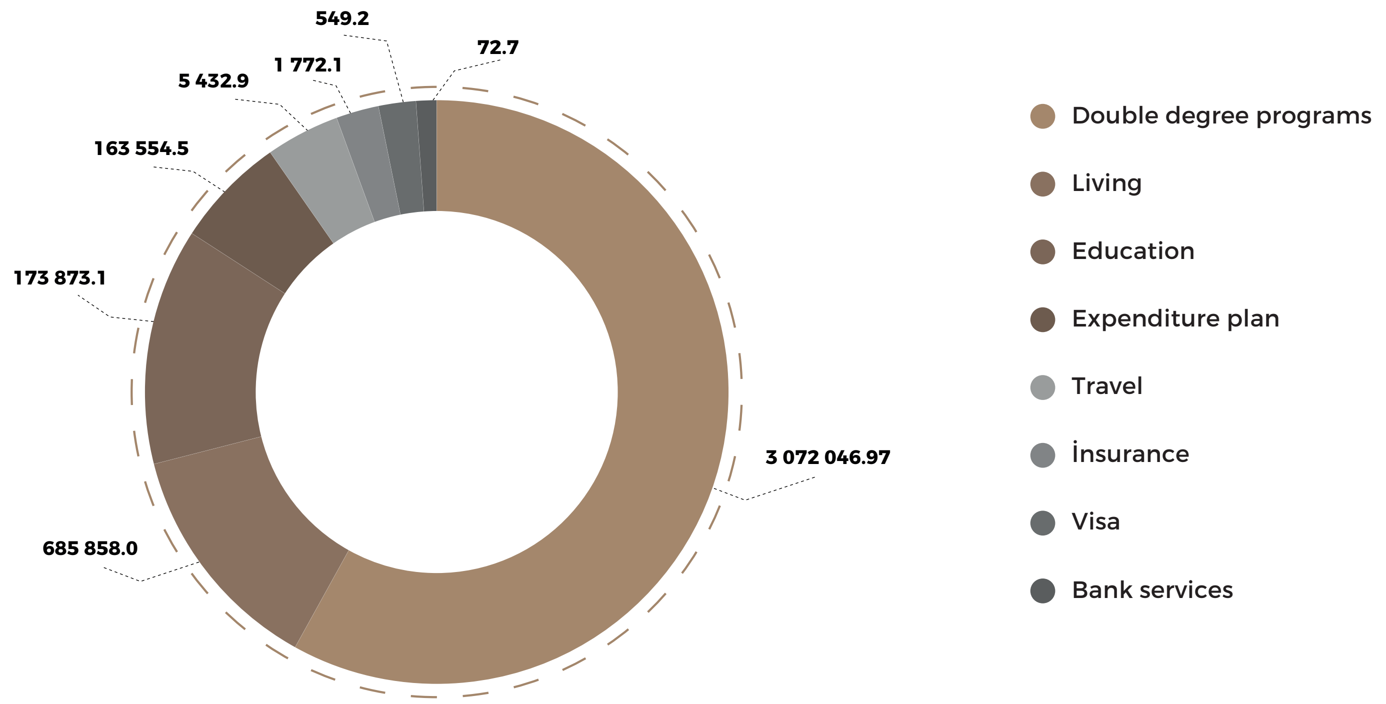


Aforementioned funds were allocated for the construction of 76 residential districts of private houses, 25 residential blocks with multi-storeyed buildings that in total allow for the settlement of 40,392 families, as well as a large number of socio-infrastructural objects. In 2020, 3 residential district and 4 residential blocks were built, and 3640 families were settled. In addition, 7 schools, 3 kindergartens, 2 medical centres, 2 community centres, 3 administrative buildings, 2 artesian wells, 19 water reservoirs, 13 pumping stations, 27 high-voltage electric transformers, 2 electric sub-stations, 33.5 km of highways, 106.6 km of water pipelines, 114.5 km of electricity transmission lines, 57.6 km of gas pipelines and 14.7 km of sewerage lines were built and completed within the framework of the program in 2020.
In the reference year, the expenditures on this budgetary item constituted 1.6% of the total budget expenditures of the Fund and was at the same level with the pevious year's result.

State Program on improving the competitiveness of the higher education system in the Republic of Azerbaijan in 2019-2023. In accordance with the Decree of the President of the Republic of Azerbaijan as of 16 November, 2018 "The State Program on improving the competitiveness of the higher education system in the Republic of Azerbaijan in 2019-2023" (hereinafter- Program) was approved, while the point 4.1.1. of the Decree defined the State Oil Fund as the major source of funding for the Program. In 2020, AZN 4103.2 thousand were channeled into financing this Program, including:

- AZN 163.6 thousand on the approved draft expenditure plan of the Management Group;
- AZN 867.5 thousand for covering the expenditures of Azerbaijani citizens in the PhD programs abroad (this amount was intended to cover the education, living, visa, insurance and travel fees);
- AZN 3 072.0 thousand for financing the implementation of the double-degree programs (between the ADA University and George Washington University (USA), between the State Pedagogical University of Azerbaijan and George Washington University and between the Baku Engineering University and "Inha University" (Republic of Korea).

Chart 4.3.7. Directions of expenditures on State Program (AZN):



THE AZERBAIJAN DEMOCRATIC REPUBLIC

The Russo-Iranian War of 1805-1813 ended in the signing of the Gulustan Treaty on October 12, 1813. Under the treaty the land of Azerbaijan was divided between the two states. In 1822, the Karabakh Khanate was abolished.

The Second Russo-Iranian War of 1826-1828 resulted in the signing of the Turkmenchay Treaty on February 10, 1828. Under this treaty Iravan and Nakhchivan khanates were passed to the Russian Empire in addition to the territories lost to the Russians under the Gulustan Treaty.

According to the terms of the Turkmenchay Treaty in 1828 and Edirne Treaty in 1829, 40,000 Armenians from Iran and 90,000 Armenians from the Ottoman Empire were relocated to Karabakh and other regions of Northern Azerbaijan. This is why many historians call these Armenians "the children of Turkmenchay".

In 1836, by decree of the Russian emperior, the Albanian Catholicosate was abolished and the Albanian Church was merged with the Armenian-Gregorian Church. Thus, the process of Armenianization of the Christian Albanian population in Azerbaijan became widespread, especially in Karabakh.

After the collapse of the Russian Empire, the people of Azerbaijan declared the creation of the Azerbaijan Democratic Republic (ADR) on May 28, 1918. It was the first democratic and secular parliamentary republic in the Muslim East and the first to grant women the right to vote and be elected.

The Azerbaijani language was declared the state language of the Democratic Republic. The ADR achieved much in a short time. Significant work was done to build the national army, the national currency was issued, the national bank was established, and Azerbaijan was recognized as an independent state by the international community, ensuring the country's integrity.

The national anthem of the ADR was adopted in 1920, and restored as the country's anthem in 1992. The words of poet Ahmad Javad were set to music by outstanding composer Uzeyir Hajibayov, who had grown up in Shusha.

The ADR came to an end on April 28, 1920 with the occupation of Azerbaijan by Russian Bolshevik forces. The Azerbaijan Soviet Socialist Republic was established, and the same year Goycha and Dilijan districts and Western Zangazur were incorporated into Armenia. The surrender of Meghri to Armenia in 1929 cut Nakhchivan off from the rest of Azerbaijan. At the initiative of the USSR leadership, the Nagorno-Karabakh Autonomous Region was established, with its capital in Khankandi. This artificial structure was abolished on November 26, 1991, shortly after Azerbaijan regained its independence.

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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 Decrees 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 2020, 63.8% of the investment portfolio comprised of fixed income and money market securities while 15.9%, 14.2%, and 6.1% were invested in equities, gold, and real estate, respectively.

Table 5.1.1. Target Asset allocation

Portfolio as of 31 December 2019	Portfolio as of 31 December 2020	Portfolio as of 31 December 2020
Fixed income 68.7%	Fixed income 63.8%	Fixed income 55%
Equities 14.1%	Equities 15.9%	Equities 25%
Real Esate 5.8%	Real Esate 6.1%	Real Esate 10%
Gold11.4%	Gold 14.2%	Gold 10%

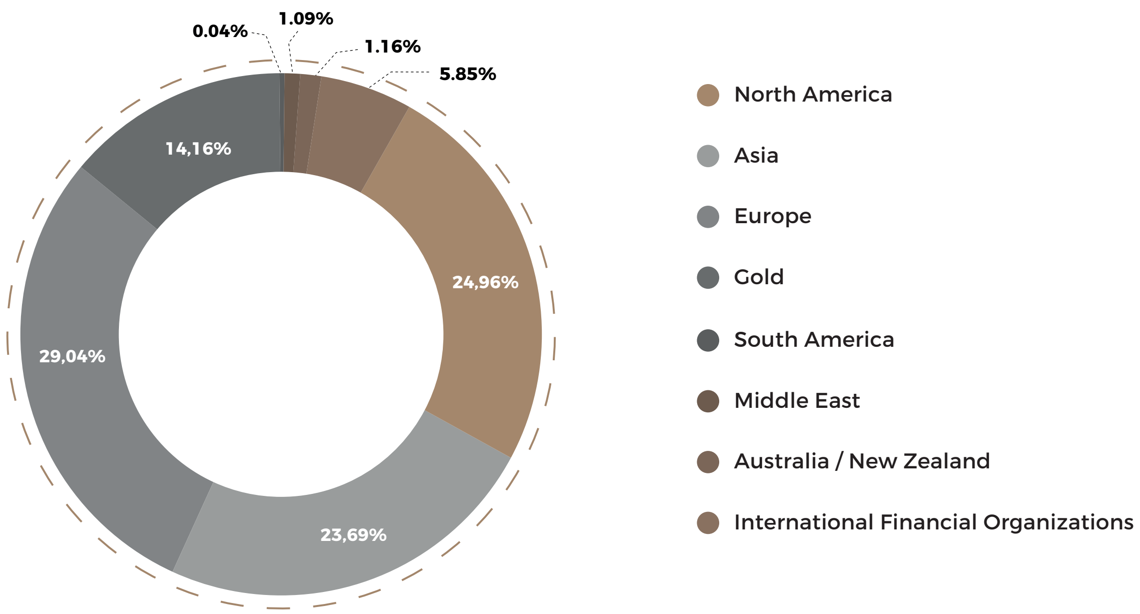
6-month LIBOR for corresponding currencies (6-month EURIBOR for assets denominated in EUR) is selected as the benchmark for the fixed income and money market instruments portfolio while the MSCI World Index is the benchmark for the equity portfolio.

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

Table 5.1.2. SOFAZ's Investment directions in 2020

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 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



ASSETS MANAGING BY EXTERNAL MANAGERS

As of December 2020, 12.2% 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 246 million (0.6% of investment portfolio);
- DWS International – manages USD 115 million (0.3% of investment portfolio).

For equity portfolio:
- UBS Asset Management – manages USD 2 020 million (4.6% of investment portfolio);
- State Street Global Advisors (SSGA) – manages USD 489 million (1.1% of investment portfolio);
- Mellon Investments Corporation - manages USD 743 million (1.7% of investment portfolio);
- BlackRock Investment Management - manages USD 1 007 million (2.3% of investment portfolio);
- Sumitomo Mitsui Trust International (Sumitomo) - manages USD 691 million (1.6% of investment portfolio).

GOLD INVESTMENTS

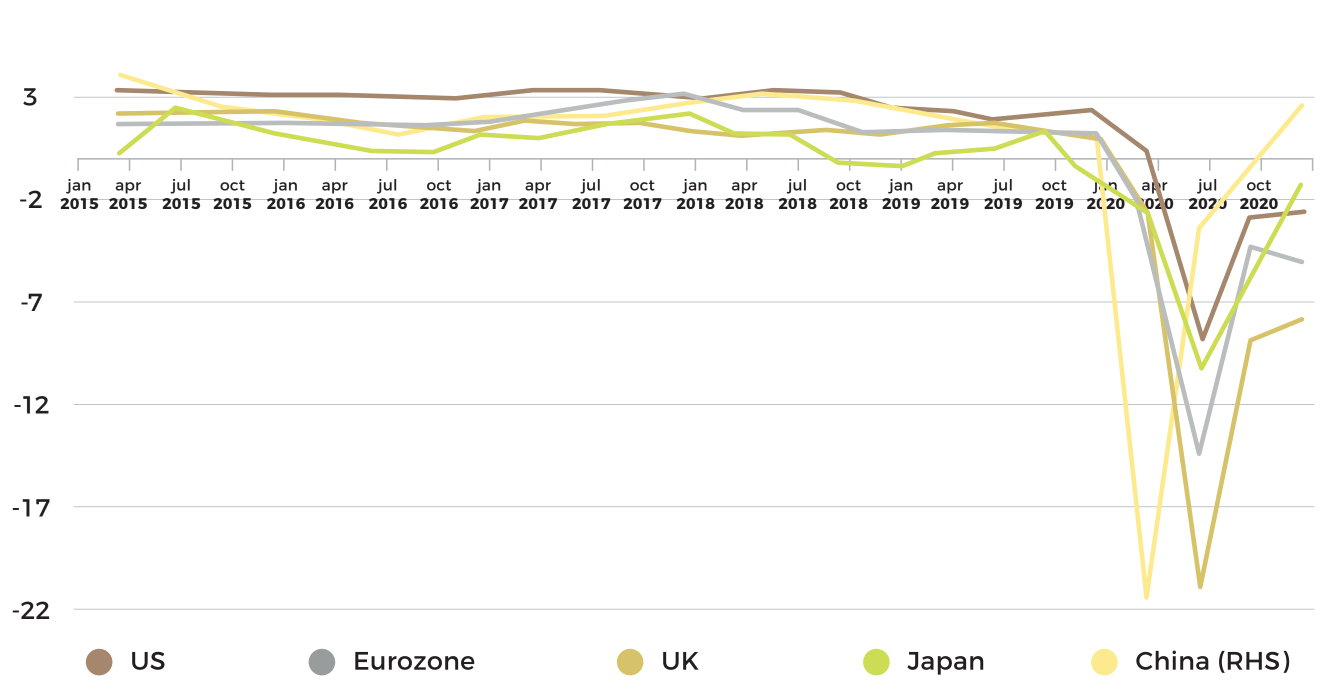
According to the "Investment Policy" for 2020, up to 10% of the SOFAZ's assets can be invested into gold. During 2020, SOFAZ purchased additional 557 kg (17 916 troy ounces) of gold bars making the total outstanding amount of gold in its investment portfolio 101 801 kg (3 272 975 troy ounces) or USD 6 171 mln. as of 2020 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.

5.2. SOFAZ'S INVESTMENT PORTFOLIO

Global Economy Review

The COVID-19 pandemic led to unprecedented turmoil in the global economy in 2020. The annual economic growth was –3.5%, compared to 2.8% in the previous year. Consumer spending, service industry, production, and trade were the main sectors of the economy that felt the negative impacts of the pandemic and created an economic downturn. Intending to dampen COVID-19 related shocks on economy the governments, central banks, and supranational organizations have been utilizing various monetary stimulus and fiscal relief packages.

Chart 5.2.1. GDP growth rate in major economies (2015-2020, percentages)



SOURCE: BLOOMBERG

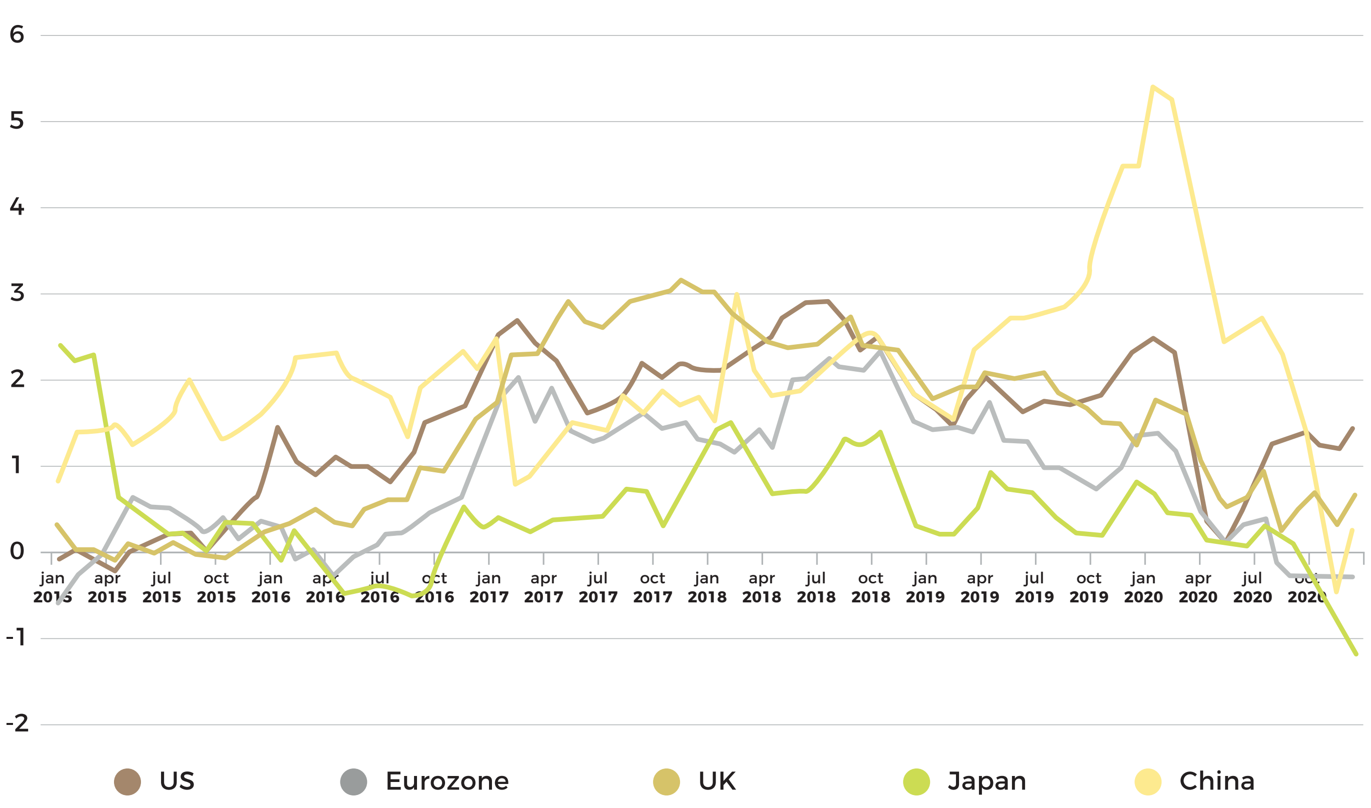
The United States real GDP has decreased 3.5% in 2020, compared to the 2.2% increase in 2019, making it the worst-performing year since the financial crisis of 2008. Such a decrease was reflected in the figures for inflation, exports, and private investment. Unemployment during the year reached its record 14.8% with the personal savings rate being at a historic high of 16.2%. Substantial governmental interventions in the economy have resulted in the federal rate being cut to 0.25% and a stimulus package amounting to 14.8% of the GDP was provided to households, firms, and state and local governments.

Comparatively the Eurozone, has experienced the biggest recession since its foundation. Real GDP decreased by 7.5% in 2020, which was a significant contraction after 2019's 1.3% increase. In terms of GDP, Spain, France and Italy were the hardest hit members of the union where the GDP figures contracted -9.1%, -8.1%, and -8.9% respectively. The pandemic has affected the automotive, accommodation and food, and transportation sectors more than other sectors of the Eurozone economy. The unemployment rate according to the statistical office stood at 7.9% for the Eurozone, up from 7.6% in 2019. Such a relatively low increase in unemployment figures was due to the furlough schemes that were put in place as part of Eurozone governments' fiscal packages.

On the upside, Eurozone has been able to eliminate one of the long-term downside risks, "no-deal Brexit", on the 24th of December 2020 as the parties have reached a deal regarding the future trade conditions.

China's real GDP growth has decreased to 2.3% in 2020 compared to 6% in 2019, making it one of the few economies that have demonstrated growth in 2020. This economic expansion was achieved by implementing strict virus containment measures in addition to extensive monetary and fiscal stimulus.

Chart 5.2.2. Inflation rates in major economies (2015-2020, percentages)



SOURCE: BLOOMBERG

As a result of the pandemic-related decrease in consumer spending and investments in 2020, inflation rates have dropped significantly around the world. In the Eurozone inflation dropped to 0.3% in 2020 from 1.2% in 2019. While in the USA CPI stood at 1.2% in 2020, which is below FED's long-term inflation goal of 2%. China's inflation figures dropped to 2.5% from 2.9%.

MONETARY POLICY – CENTRAL BANKS

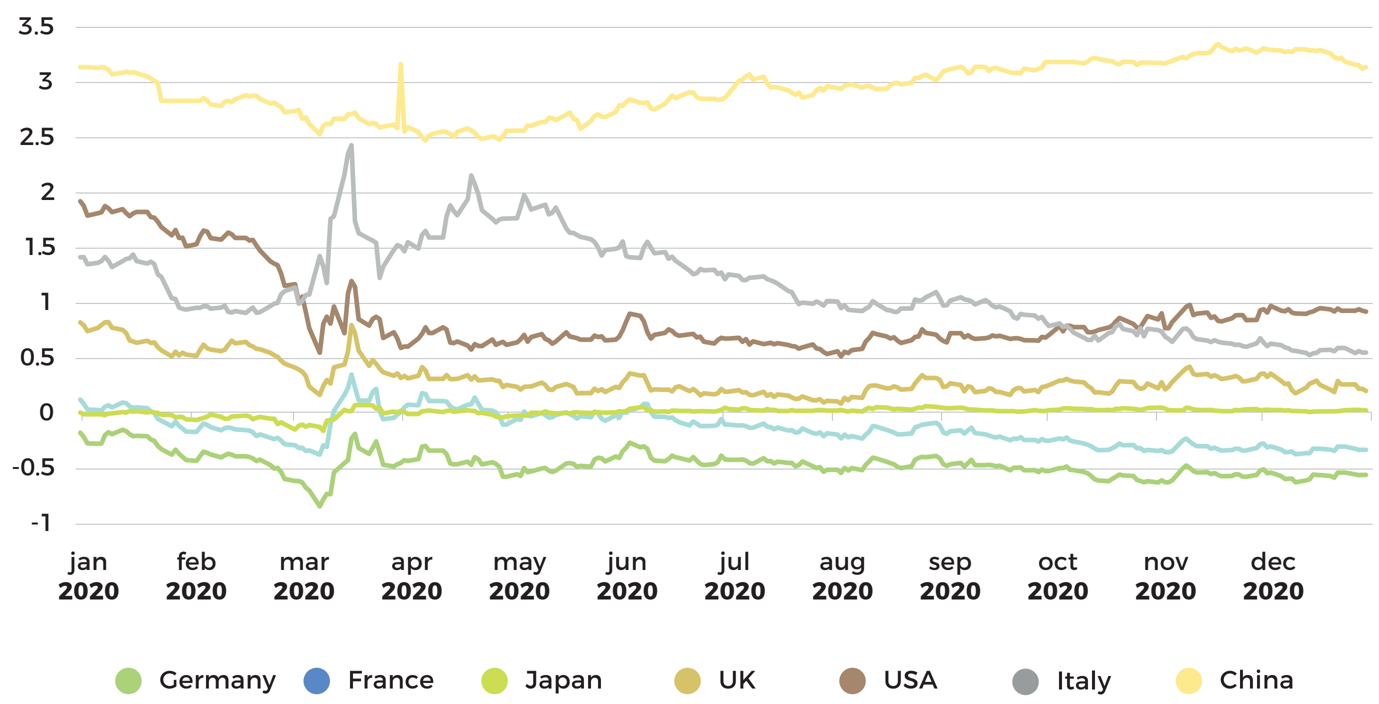
In 2020, unprecedented shocks to both demand and supply channels of the global economy as a result of the COVID -19 pandemic has forced major central banks to double down on conventional and unconventional policy measures to support their respective economies. These timely actions were necessary to dampen the effect of dramatic contraction in the activity levels on the economy and prevent events such as widespread bankruptcies and financial meltdown seen in the Great Financial Crisis in 2008. On top of traditional policy tools such as rate cuts, the central banks of advanced economies resorted to larger than ever asset purchases, forward guidance, targeted loans for SMEs, limits on dividends that can be paid out by banks to preserve capital, and in some cases outright yield curve targeting. Because of these dovish policies, by the end of the year, yields were at historic lows, spreads came down from their March highs, bankruptcies were contained and in general, there was ample liquidity for companies and households to survive the downturn.

FED was one of the first major central banks to pre-emptively cut policy rate by 1% in March and its balance sheet as percentage of the GDP increased from 19% in 2019 to 35% by the end of 2020. In nominal terms, this balance sheet expansion represents an increase of USD 3.27 trillion. Moreover, by placing limits on dividends U.S banks can pay out, FED ensured the systemically important banks can endure a protracted downturn. In addition, FED's use of forward guidance where the institution emphasized that rate hikes or balance sheet wind-down will not be under consideration at least until 2023 eased investors' concerns resulting in smooth monetary policy transmission to the financial markets and the real economy. FED's insistence on considerable material improvement in the economic outlook, inflation, and inflation expectations as a prerequisite to switching to a hawkish stance reduced the risk of financial market turmoil.

In response to combatting the pandemic, ECB relied more on unconventional policies instead of rate cuts as the latter did hit an effective lower bound and was showing diminishing returns in terms of policy effectiveness. Therefore, the central bank increased its balance sheet size by EUR 2.4 billion via its Asset Purchase Program (APP) and Pandemic Emergency Purchase Program (PEPP) during 2020. In terms of percentage of the GDP, the ECB balance sheet expanded from 40% to 62% by the end of 2020. On top of large scale asset purchases, the central bank also sought to provide ample liquidity through its Longer-Term Refinancing Operations (LTRO) and Targeted Longer-Term Financing Operations (TLTRO-III). These assertive actions served to defuse risks in the financial markets, ensure favorable access to credit for firms and households and cushion the impact of increased fiscal risks as a result of an increase in borrowing levels by Eurozone members.

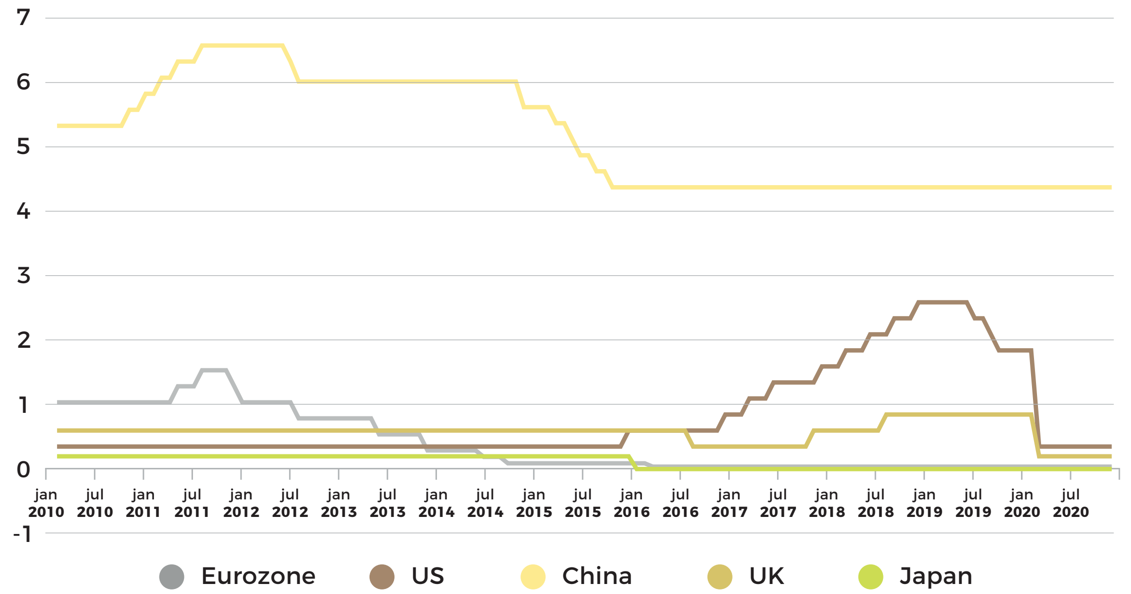
In a similar vein to FED, the Bank of England employed various monetary policy choices to protect the British economy and financial markets which were particularly hard hit by the pandemic and saddled with ongoing Brexit uncertainty. BOE cut policy rate to historic low of 0.10% from 0.75% on the back of significantly worsened economic outlook. On top of this, the central bank's balance sheet expanded to 37% of GDP in 2020 which represents an increase of about GBP 315 million in nominal terms. Finally, BOE restarted its Term Funding Scheme which provided long-term loans to financial institutions and put in place further liquidity provisions for banks that increase the amount of credit to small and medium-sized businesses. These measures, no doubt, fueled recovery later in the year from the economic lows of the second quarter, where the GDP contracted 18%.

Chart 5.2.3. 10 Year generic yield



SOURCE: BLOOMBERG

Chart 5.2.4. Central Banks' benchmark interest rates (2010-2020, percentages)



SOURCE: BLOOMBERG

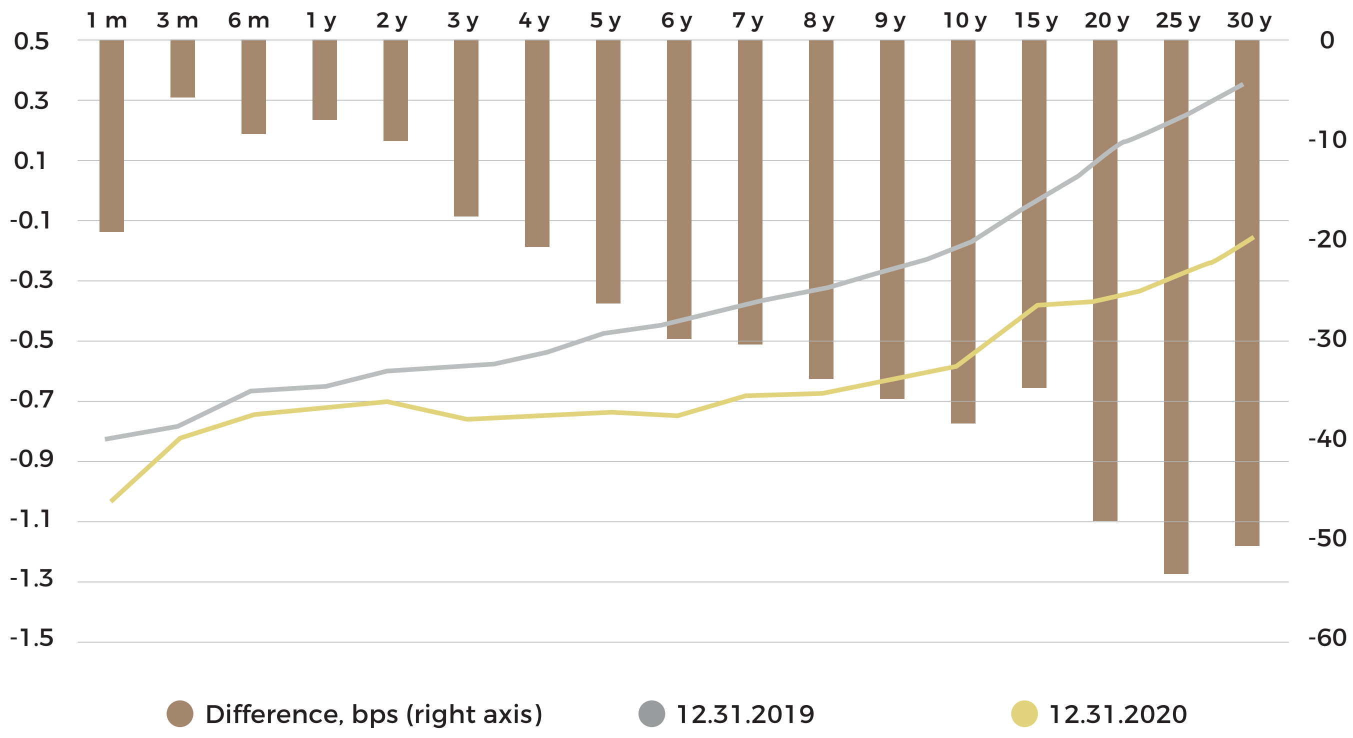
FIXED INCOME MARKETS

Fixed income market returns along with the returns for the rest of the financial markets were particularly hard hit in the first quarter of 2020 when Europe and the U.S experienced rapid increases in active cases of Coronavirus. Later on, investors welcomed the combination of ultra-loose monetary policy and expansionary fiscal policy in response to COVID-19 and its economic repercussions despite an alarming increase in the debt burden of certain advanced economies. Low policy rates and asset purchase programs ensured that refinancing costs were kept in check and it even decreased in some cases. Overall, yields dropped to record lows and spreads tightened back to their pre-pandemic levels allowing bond returns to finish 2020 on a high note.

In 2020, the U.S. Treasury yield curve experienced a downward shift in the magnitude of 140 bps facilitated by rate cuts, worsening economic outlook, which pushed investors to safe-haven assets like U.S. Treasuries (USTs) and capital flows from other countries. Afterward, the yields, especially in the short to intermediate-term, stayed relatively flat until the 4th quarter of the year. Towards the end of the year, following positive news regarding the vaccine development against COVID-19 and therefore improved economic growth and inflation expectations, the long end of the curve steepened. As for corporate spreads, after a brief spike in the first quarter, tightened even below their pre-pandemic levels due to major interventions by FED, even though the fundamentals deteriorated significantly.

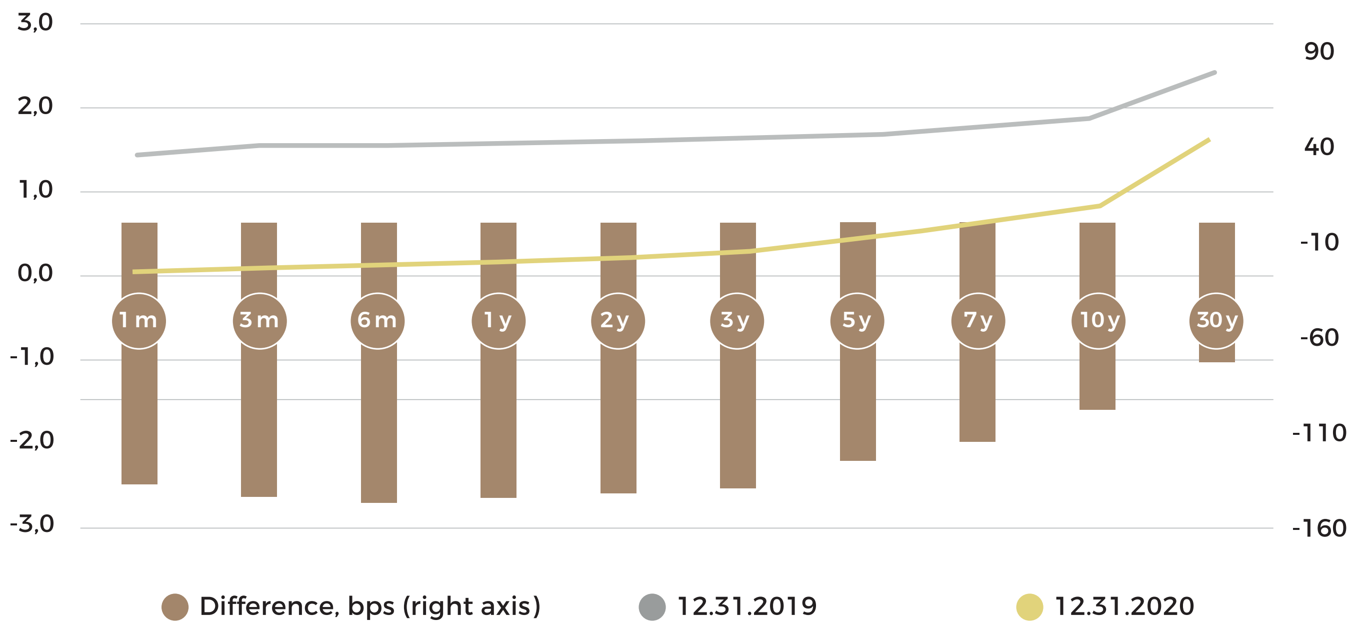
When it comes to the benchmark yield curve for Eurozone, while less dramatic, the German sovereign yield curve also experienced a downward shift. However, this effect was more pronounced in the long end of the curve where yields shifted 30-50 bps in 2020 in contrast to short end's 5 to 20 bps shift. The result was a flatter German sovereign yield curve when compared to its January 2020 shape. On the other hand, yields of periphery countries such as Italy, Spain, and Portugal at first were affected negatively in the first quarter of 2020 because of the rapid deterioration of the economic environment as well as some unfortunate remarks made by newly elected ECB president Christine Lagarde in regards to spread levels of southern economies. Later on, ECB's implicit commitment to keep funding levels low for Eurozone members, creation of a EUR 750 billion recovery fund, and continued APPs depressed spreads back to sustainable levels for hard-hit Southern economies. 10-year BTP-Bund spread (difference between the yields on Italian government bonds and bunds) ended the year at 110 bps down from 200 bps in March of 2020. Corporate spreads in the Eurozone followed a similar trajectory where after a brief spike in March ECB's quantitative easing helped to push spreads below their pre-pandemic averages.
Similar to the trajectory of the U.S. Treasuries and Bunds, UK Gilts also experienced a downward shift of 60-80 bps thanks to the central bank's balance sheet expansion, the pandemic related risks, and continued Brexit uncertainty, despite debt to GDP ratio increasing from 85% to close to 100% by the end of 2020. For the first time in the history, yields for the short to intermediate end of the UK sovereign curve dipped below zero percent and stayed there after the Bank of England stated that negative rates are under consideration and are part of the policy toolbox. 10-year Gilt ended the year at 20 bps which is 60 basis points below its January 2020 level.

Chart 5.2.5. Germany sovereign yield curve (percentages)



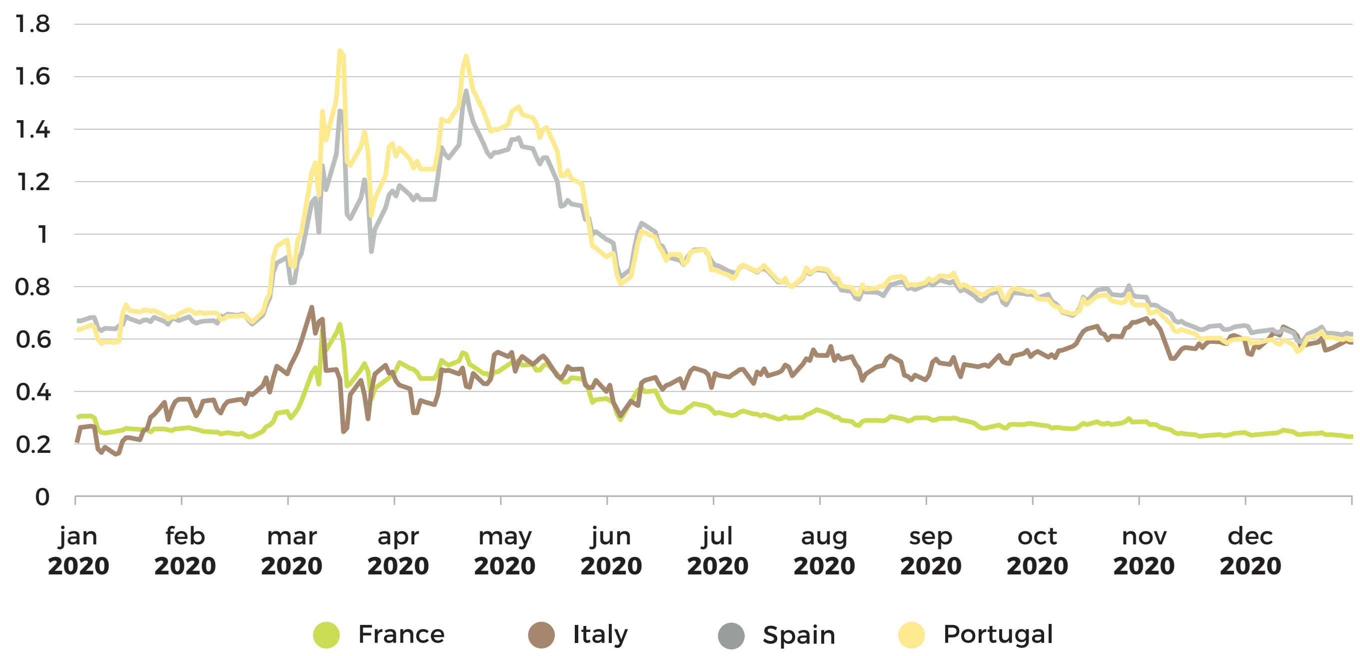
SOURCE: BLOOMBERG

Chart 5.2.6. US sovereign yield curve (percentages)



SOURCE: BLOOMBERG

Chart 5.2.7. 10 year yield spreads against Germany government bonds (percentages)

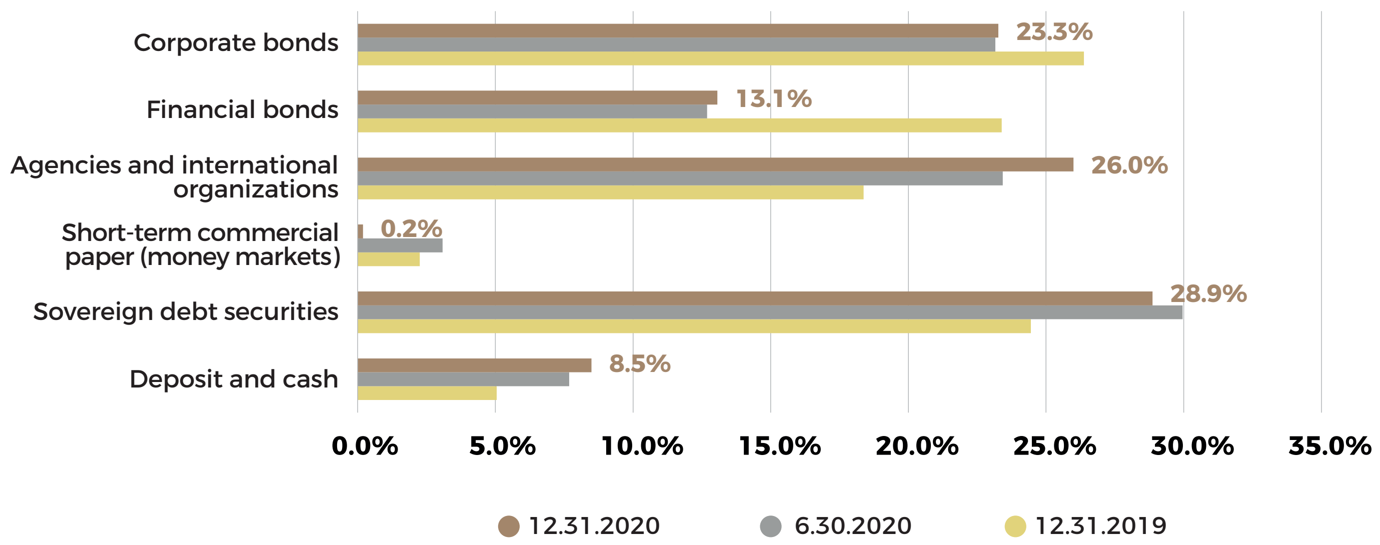


SOURCE: BLOOMBERG

FIXED INCOME INVESTMENTS

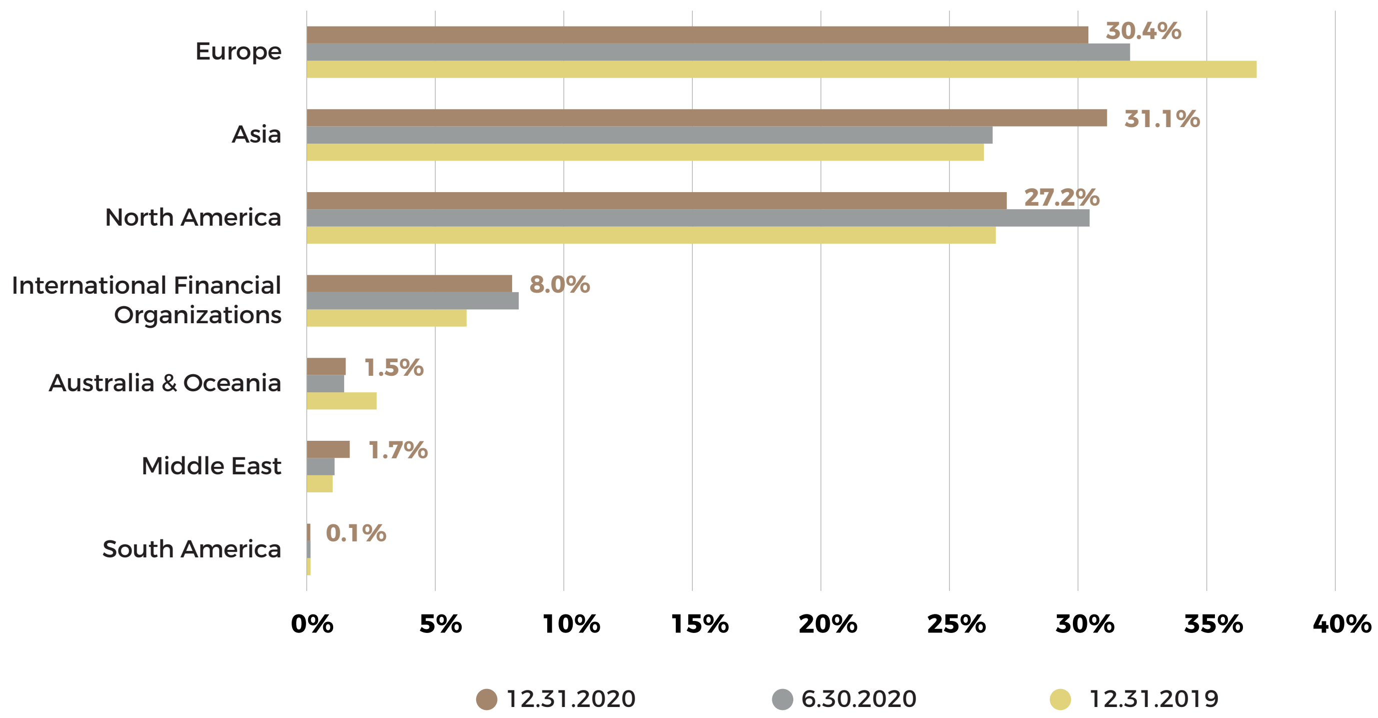
In 2020, SOFAZ's exposure to short-term commercial papers and corporate bonds, especially financials was substantially reduced. On the other hand, we can observe a significant increase in the exposure to sovereign debt securities and fixed income securities of agencies and international organizations. This move was part of the SOFAZ's strategy of relocating funds to securities offering higher rating and lower risk. The share of sovereign debt securities rose to 28.9% from 24.5%, while the share of agencies and international organizations was increased to 26% from 18.4% of the last year. Moreover, the holding of corporate and financial bonds was reduced to 23.3% and 13.1% from 26.4% and 23.4% respectively. Exposure to the short-term commercial papers was decreased due to lower money market yields and limited opportunities.

Chart 5.2.8. Breakdown of fixed income portfolio by product types (percentages)



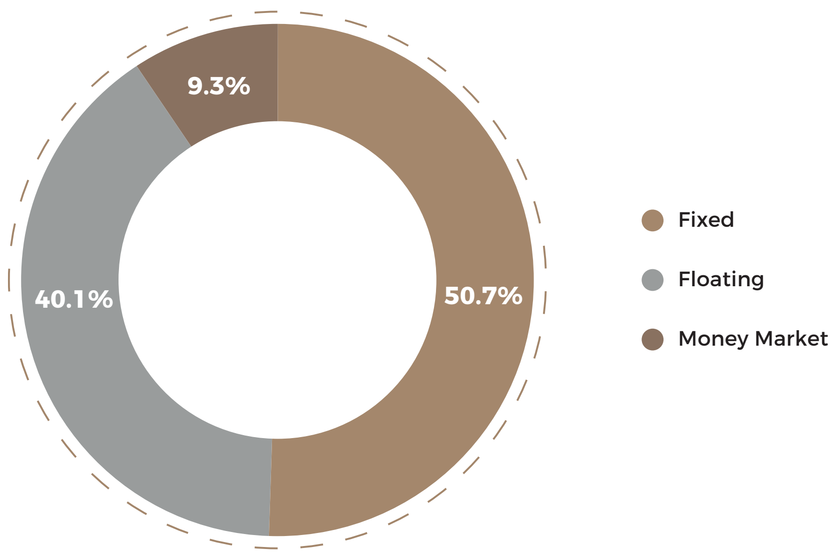
SOFAZ continued the strategy of geographical diversification of fixed income portfolio in 2020. SOFAZ decreased its exposure to Europe (30.4%) and increased its exposure to Asia to 31.1%. SOFAZ also increased its exposure to International Financial Organizations to 8%. There was no material percentage change in holdings in other regions.

Chart 5.2.9. Breakdown of fixed income portfolio by geographical distribution (percentages)



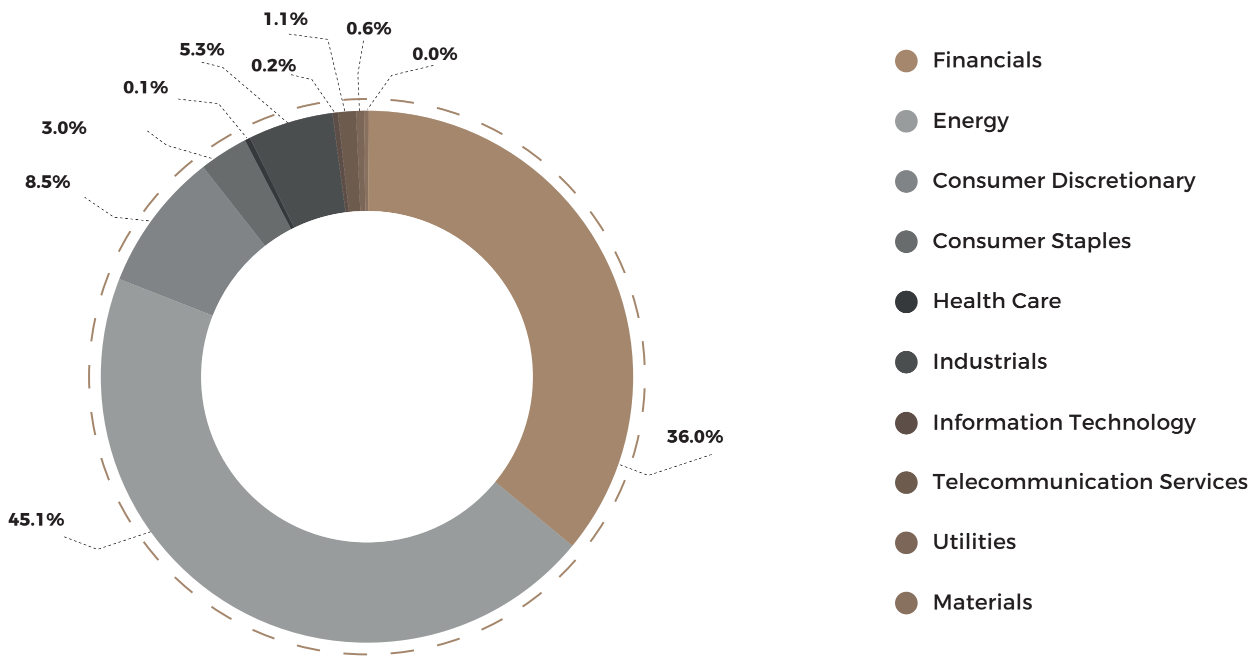
There was no significant change in the breakdown of the fixed income portfolio by security type in 2020. The holdings of fixed rate notes were increased from 47.8% to 50.7% and the holdings of floating rate notes were decreased from 43.7% to 40.1%. The increase of fixed coupon securities was due to rising economic risks. The aim of the strategy was to benefit from the potential downward shift in the curve.

Chart 5.2.10. Breakdown of fixed income portfolio by security type



Additionally, the SOFAZ's fixed income portfolio is well diversified across different asset classes. The corporate bonds are mainly dominated by energy, financial and consumer discretionary sectors, receiving highest allocations during the reporting year.

Chart 5.2.11. Breakdown of fixed income portfolio by sectors



EQUITY INVESTMENTS

Public equity market review

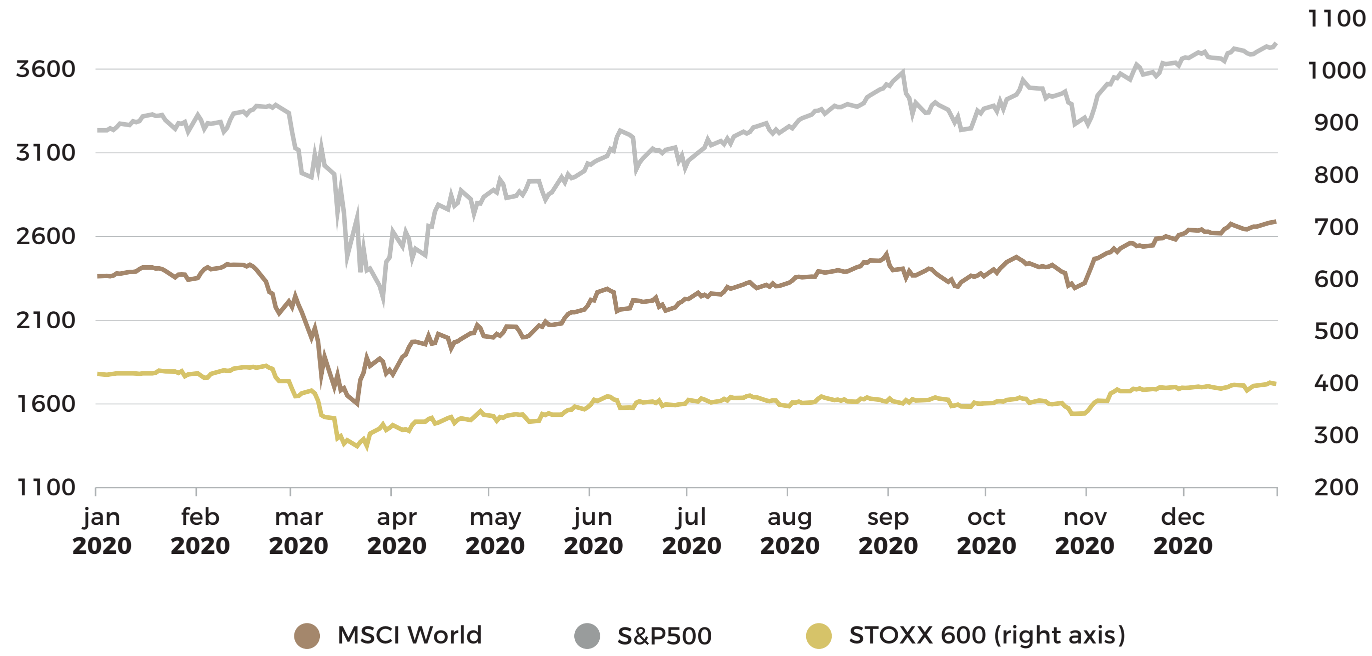
2020 has been a dramatic year, fundamentally defined by the pandemic. This year will be remembered by investors as one of the turbulent years in stock market history.

The year started on a positive note due to the eased tension between US and China in trade deal, leading many equity markets to post all-time highs in February. However, markets were drastically turned upside down and bottomed in March as the spread of the virus reached more countries, businesses were forced to close and consumers were placed under strict lockdowns to contain the spread of the virus. This led to major market sell-offs, plunging stocks well below their 2019 values. The number of Americans filing claims for unemployment benefits shot to a record high for two weeks in a row in March - topping 6 million. Second quarter GDP decreased by 11.4% in the EU and 9.1% in US compared with the previous quarter. It was the biggest single quarter drop in history. This drop was offset in large part by a rebound in the third quarter driven by resilience in consumer spending which was shaped by several factors, mainly by fiscal and monetary stimulus. The Federal Reserve cut its target for a key short-term interest rate to a range of 0 to 0.25% and launched a massive USD 700 billion quantitative easing program to combat the economic depression. The Bank of England reduced its bank rate to 0.1%, while EU leaders agreed to an unprecedented EUR 1.8 trillion aid and budget deal aimed at helping hard-hit bloc members to recover from the economic fallout.

Despite the turmoil and early-year losses, stock market close the tumultuous 2020 ahead of its 2019 closing marks owing to continuous recovery on the back of easing of lockdown restrictions, ongoing loose monetary policy from governments, the development and initial dissemination of COVID-19 vaccines towards the year end along with US election in the rear-view mirror. The MSCI World Index which covers developed market stocks has concluded 2020 with 14% gain. The Europe's main stock gauge STOXX 600 recorded 4% loss while S&P 500 climbed 16% ending the year at record high.

The downturn in stocks impacted some sectors of the market more than others. The energy sector of MSCI World dropped 34% — making it the worst-performing sector along with financials that suffered from low rates and loan losses and industrials due to heavy exposure to aerospace companies. Consumer discretionary, consumer services, materials, health care and consumer staples sectors emerged as relative winners during the crisis with technology sector being the best performing sector with 43% gain due to the work-from-home, gaming and e-commerce trends that have accelerated during the pandemic.

Chart. 5.2.12. Index performance



SOFAZ'S EQUITY PORTFOLIO

By the end of 2020, public equity portfolio increased to 12.30% of total AUM of SOFAZ, compared to 10.96% in 2019. Throughout the year, public equity investments gained 9.83% in local terms (13% 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 index accounted for 14.01% local return (16.58% in USD terms) in 2020. SOFAZ's internally managed portfolio which is benchmarked to the S&P 100 index generated the positive return of 21.36% throughout the year. SOFAZ continues to hold an equity stake in VTB bank, a state controlled Russian bank. In 2020, its local currency denominated return equaled -15.83% (-29.04% in USD terms). The gain of the portfolio tracking MSCI Europe ex-UK index was 2.18% in EUR and 1.90% in USD terms in 2020.

PRIVATE EQUITY

Private equity market review 2020

Despite the Covid-19 pandemic and its economic disruption dealmakers kept sourcing deals in 2020. During the economic slowdown global private equity and venture capital AUM has increased by 6.1% from December 2019 to June 2020. The growth rate was lower than the 9.9% average of the past decade, but growth is expected to accelerate towards coming years.

The number of exits and fund-raising volume fell when compared to the five-year averages. Like every other segment of the global investment market, private equity activity fell sharply during April-May. Although, total deal count was not high throughout the year in most sectors, deal and exit value returned to its previous levels in the third quarter. During the second half of the year, private equity activity rebounded. The quick rebound of PE market was not surprising as one of private equity's advantages is its ability to immediately recover during periods of economic volatility.

Unlike other investment vehicles, PE firms can wait for the right moment to deploy capital committed by the limited partners. Also, fund managers have more control over the holding period of investments, giving them the flexibility to choose when to exit and benefit from better valuations. During economic turbulence, PE firms can also buy companies at attractive valuations. Therefore Covid-19 pandemic offered PE firms both an opportunity and a challenge to deploy the record USD 1.4 trillion in dry powder.

Based on the volume of global activity in early 2021, demand is expected to have a strong positive impact on the future deal count. Forecasts suggest that funds will continue to chase deals in the sectors least affected by the pandemic such as healthcare and technology. Despite the ongoing uncertainty, PE firms have already adapted to the situation. Most of the fund managers are improving adversely affected parts of their portfolios and adjusting their investment strategy to the new trends emerging from the shifts in the industry.

SOFAZ'S PRIVATE EQUITY PORTFOLIO

In 2020, SOFAZ has committed to five private equity funds. Below are short descriptions of the mentioned investments:

• "CVC Capital Partners VIII" is a EUR 21.3 billion fund managed by CVC Capital Partners. The fund aims to pursue leveraged buyouts of medium to large-sized businesses across Europe and North America. SOFAZ has committed EUR 40 million to the fund.
• "Vitruvian Investment Partners IV" is a EUR 4 billion fund managed by Vitruvian Partners. The fund targets to invest in high-growth companies in the middle market with a primary focus in Europe. SOFAZ has committed EUR 40 million to the fund.
• "KKR Asian Fund IV" is a USD 13.1 billion fund managed by KKR. The fund aims to invest in buyout investments in Asia-Pacific. SOFAZ has committed USD 40 million to the fund.
• "Ares Corporate Opportunities Fund VI" is a USD 3.2 billion fund managed by Ares Management Corporation. The fund aims to pursue opportunistic investments in primarily North American and European businesses with a focus on energy, retail, industrials, healthcare, services, and consumer products industries. SOFAZ has committed USD 40 million to the fund.
• "Thoma Bravo Explore Fund" is a USD 1.1 billion fund managed by Thoma Bravo. The fund will make middle-market equity investments into companies in the software and technology-enabled services. SOFAZ has committed USD 30 million to the fund.

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.

Table 5.2.1. SOFAZ's previous PE investments

Funds	Investment Year	Base Currency	Committed Amount, mln
"ALAC Fund"	2010	USD	100
"Global Infrastructure Fund"	2013	USD	200
"The Catalyst Fund"	2013	USD	50
"NB Caspian Fund"	2016	USD	300
"EBRD EPF"	2016	EUR	100
"Carlyle Partners VII"	2017	USD	50
"Blackstone Core Equity Partners"	2017	USD	50
"BC European Partners 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
"Dyal Capital Partners IV"	2019	USD	25
"Cinven Fund VII"	2019	EUR	48
"Green Equity Investors VIII"	2019	USD	50
"Brookfield Infrastructure Fund IV"	2019	USD	50

Chart 5.2.13. Breakdown of private equity portfolio by regions

Latin America and Caribbean	4,5%
North America	35,6%
Africa	6,1%
Global	13,0%
Asia and Pacific	16,6%
Europe	24,2%

Chart 5.2.14. Breakdown of private equity portfolio by sectors

Asset Management	6%
Business Services	2%
Consumer staples	1%
Healthcare	7%
Industrials	8%
Non-banking financial institution	5%
Oil & Gas	1%
Real Estate	2%
Renewable energy	9%
Retail & Consumer	11%
TMT	21%
Infrastructure	6%
Transportation & Logistics	2%
Financial Services	2%
Software & IT Services	2%
Other	15%

Note: No information (data) includes SOFAZ's investment into AZRIGS in the table 5.2.1 and charts 5.2.13., 5.2.14.

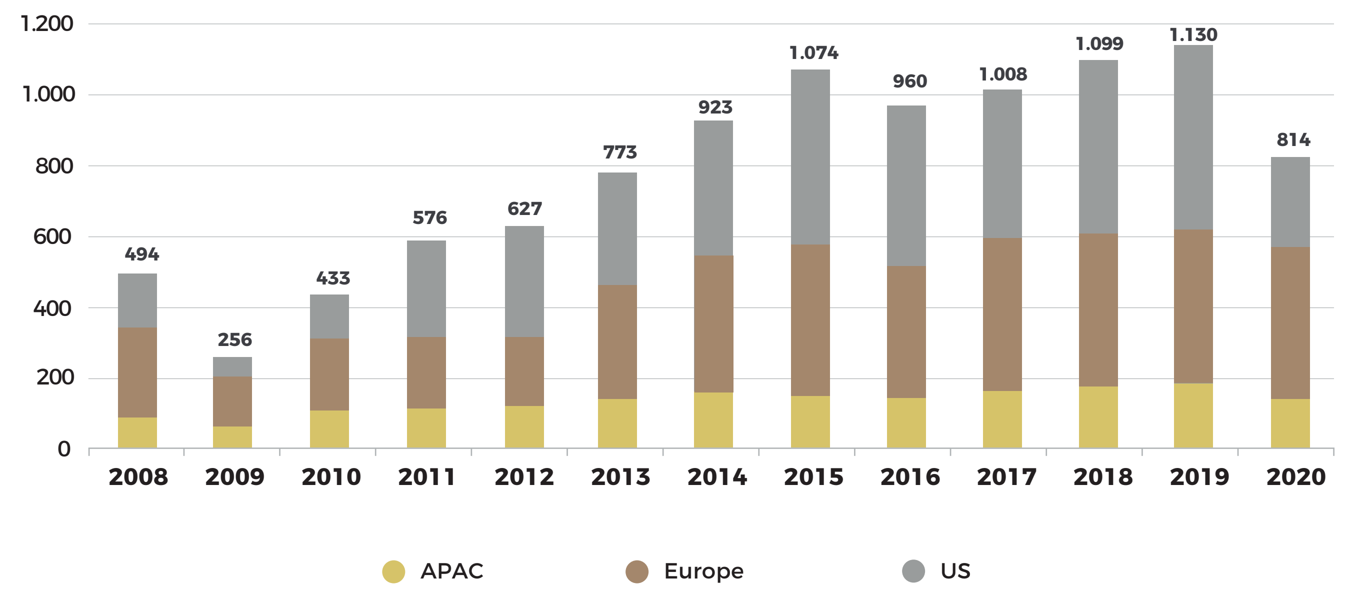
REAL ESTATE

Global real estate market

Due to COVID-19 outbreak the global economy suffered in 2020 and it was worst calendar-year performance since 2008 global financial crisis (GFC). Global economy contracted by nearly 4%. At the end of 2020 the race has begun to vaccinate a wide enough swath of the population to bring the pandemic under control and the economy looks poised to attain growth of around 5% in 2021 (JLL, 2020).

Global commercial real estate investment in 2020 totaled USD 814 billion, falling 30% from record activity in 2019. Internationally renowned research institutions forecast that interest rates will remain exceptionally low for the rest of the decade, which will increase real estate transaction activity in coming years.

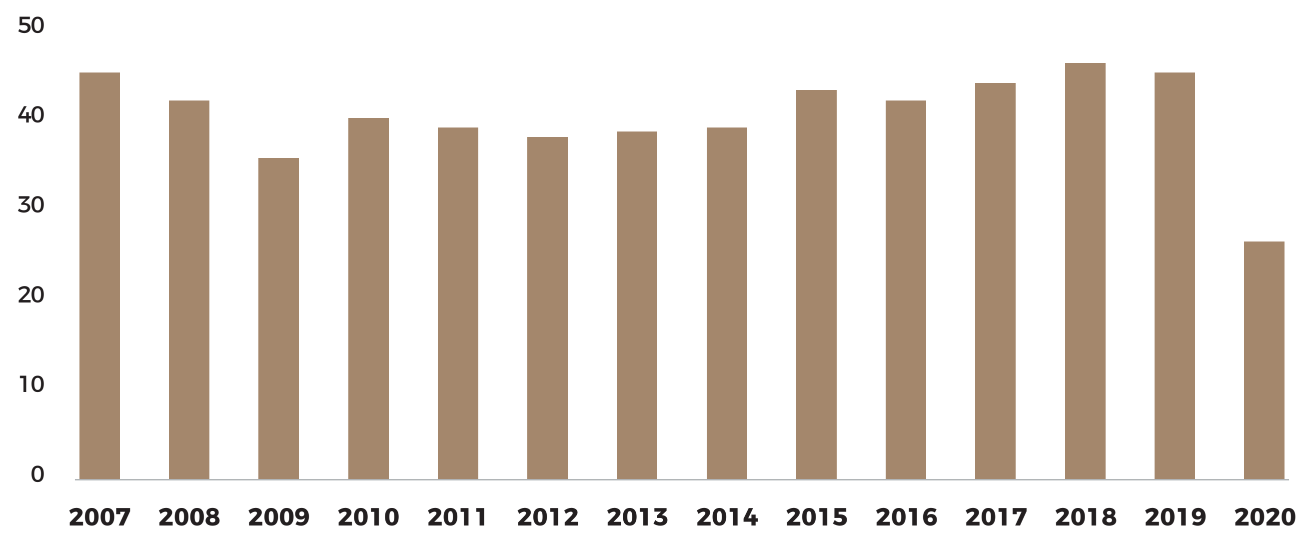
Chart 5.2.15. Real Estate Transaction Volumes by Region (US $ billion)



SOURCE: REAL CAPITAL ANALYTICS. AS FEBRUARY 2021

Office leasing volume was the lowest level since 2008 and vacancy rates moved up across all regions with the global vacancy rate recorded at 12.9% (+80bps).

Chart 5.2.16. Global office gross leasing volumes, 2007 - 2020

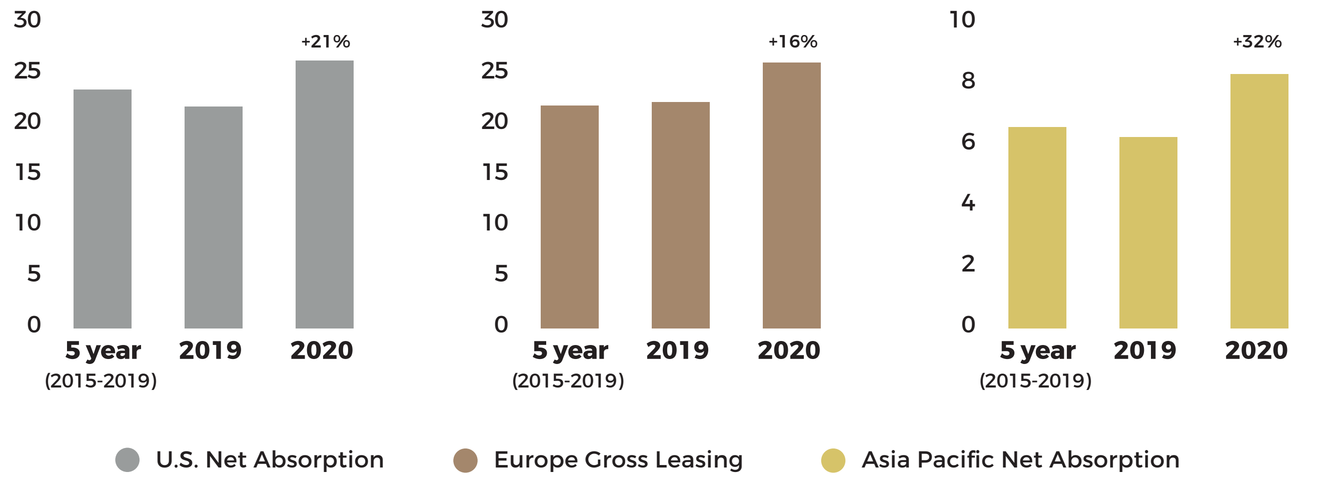


SOURCE: JLL RESEARCH, JANUARY 2021

2020 presented retailers with unique challenges as they navigated strict COVID-19 containment measures in countries that have seen a major surge in infections. According to JLL, most major retail markets are anticipated to see a cautious recovery in leasing activity in 2021, with a further pick-up in 2022.

In comparison to office and retail sectors, demand for logistics space stayed remarkably resilient in 2020 with record levels of demand in all three global regions. The major reason for solid demand for logistics is e-commerce, which saw a surge in growth in large part because of the widespread restrictions placed on physical retail stores. In the U.S, Europe and APAC leasing volume in logistics asset increased 21%, 16% and 32% respectively during the year.

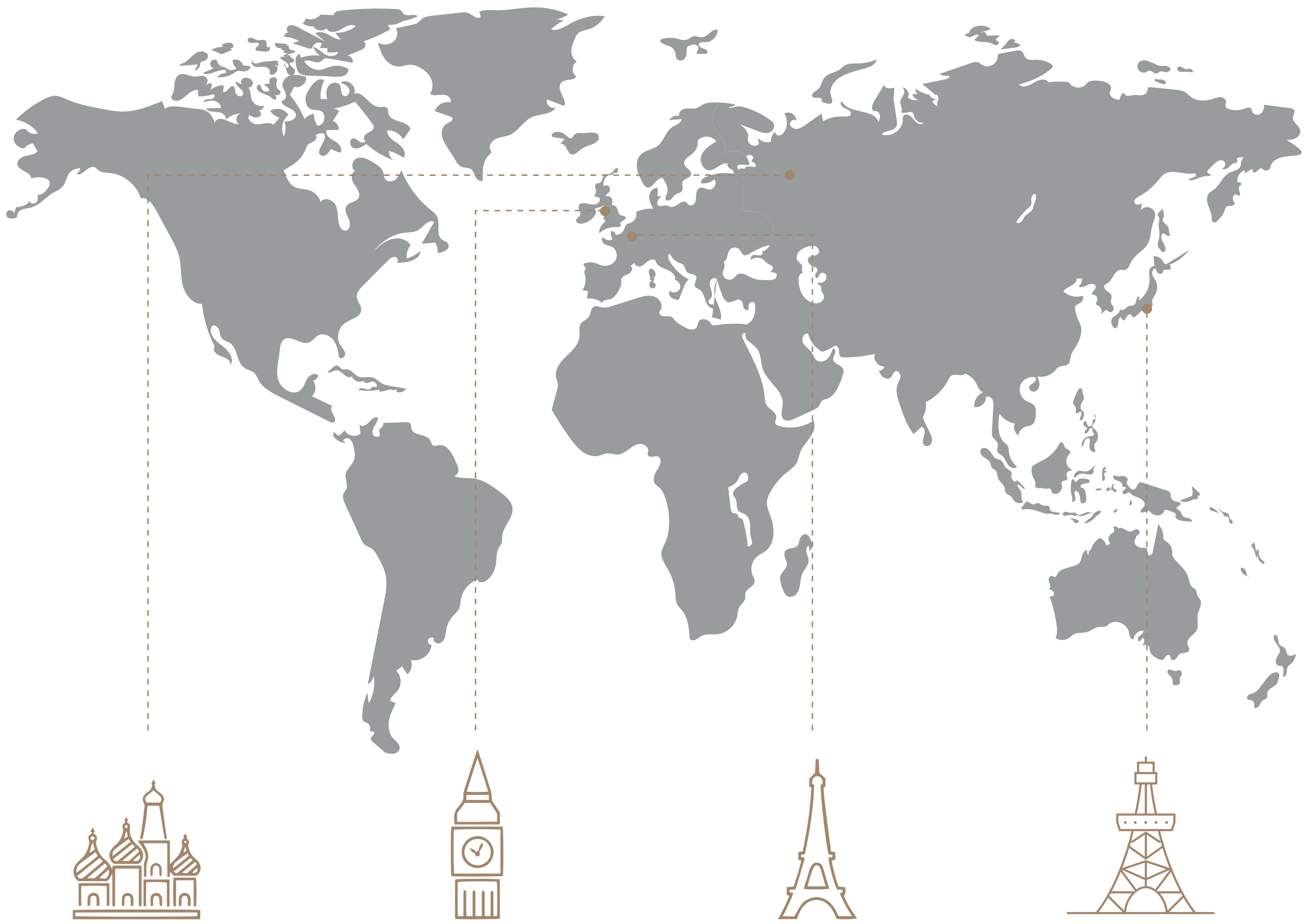
Chart 5.2.17. Regional logistics demand, 2019-2020



SOURCE: JLL, JANUARY 2021

CURRENT REAL ESTATE PORTFOLIO DIRECT INVESTMENTS

Direct property investments



Name:	**Name:**	**Name:**	**Name:**
"Gallery Actor"	"78 St. James"	"8 Place Vendome"	"Kirarito Ginza"
Place:	**Place:**	**Place:**	**Place:**
Mossow, Russia	London, UK	Paris, France	Tokyo, Japan
Type:	**Type:**	**Type:**	**Type:**
Office/Retail	Office	Retail/Office	Retail
Year of acquisition:	**Year of acquisition:**	**Year of acquisition:**	**Year of acquisition:**
2012	2012	2013	2015

New indirect investments in 2020

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 fund in 2020:

- Walton Street's "WSREF IX". The Fund was established in 2019 with the target size of USD 1.75 billion and makes real estate investment in North America. SOFAZ's commitment in "WSREF IX" is USD 100 million as a Limited Partner.

New Co-investments in 2020

- SOFAZ has reached an agreement with Blackstone Real Estate to make co-investment to life science portfolio in United States and United Kingdom. SOFAZ's equity portion in the co-investment is USD 100 million.
- SOFAZ has reached an agreement with Gaw Capital Partner's "GAW US Fund III" to make co-investment to hotel asset located in Hawaii. SOFAZ's equity portion in the co-investment is USD 14 million.

Divestment of Pine Avenue Tower A (Seoul)

In 2020, SOFAZ sold Pine Avenue Tower A in Seoul for KRW 521.5 billion to Shinhan Card. The asset was acquired in 2014. The total return from the sale was 36.2% (Income return 31.4%, capital return 4.8%).

Annual earnings

As of the year end, the real estate portfolio consisted of four assets located in London, Paris, Moscow and Tokyo cities. During 2020, gross rents are mentioned below:

- Paris, 8 Place Vendome, EUR 5 636 656;
- Moscow, 16 Tverskaya, RUB 295 222 000;
- Tokyo, Kirarito Ginza, JPY 1 534 452 811;

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 2020, associated with the loss of rental income.

After completion, 78 St James's Street will offer 10220 m² 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 2020. The valuation results and valuation companies are as below:

- 78 St James Street, JLL, GBP 133 750 000;
- 8, Place Vendome, BNP Paribas Real Estate, EUR 180 277 500;
- Tverskaya 16, Cushman & Wakefield, RUB 3 038 100 000;
- Kirarito Ginza, Daiwa Real Estate Appraisal, JPY 57 900 000 000;

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 2020

The total rate of return on SOFAZ's investment portfolio was 2.82%. Historical returns for the period of 10 years starting from 2010 and monthly cumulative returns for 2020 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)

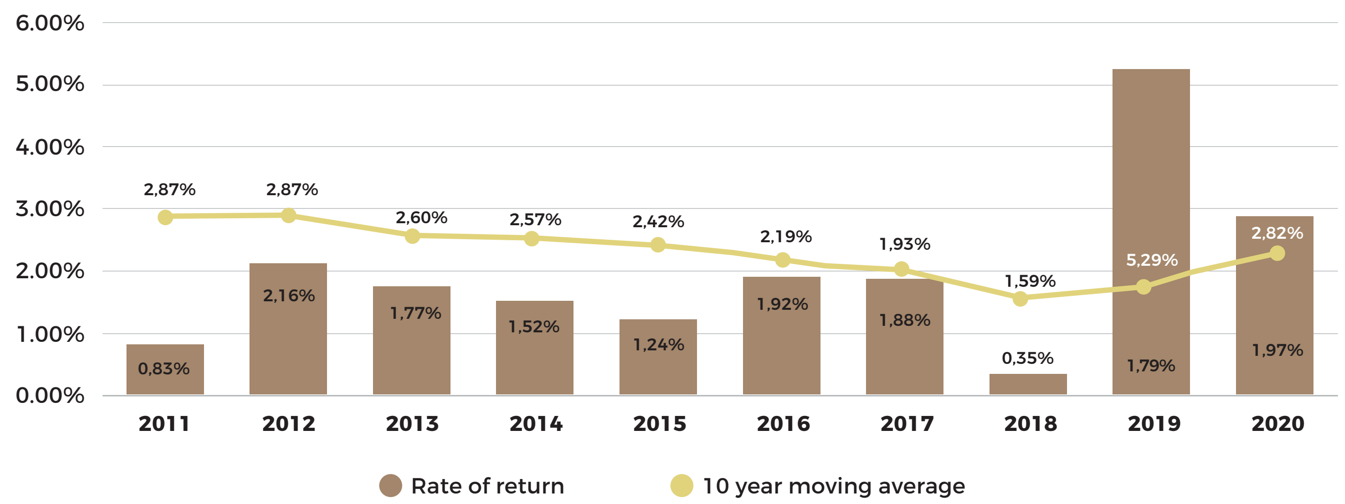
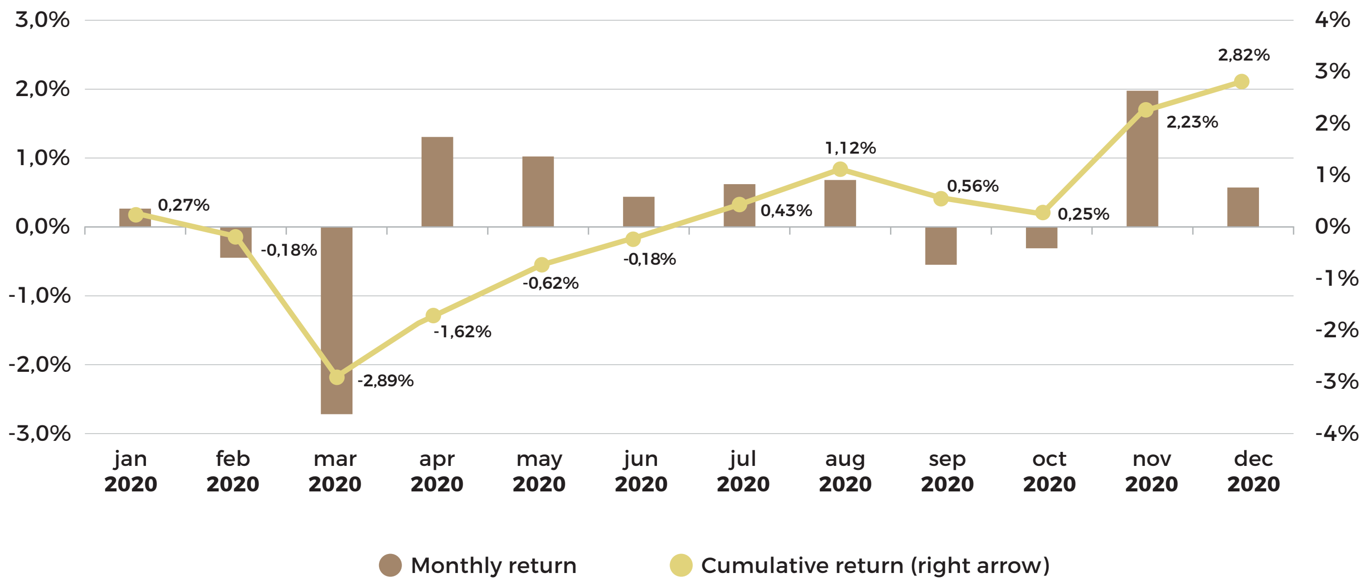
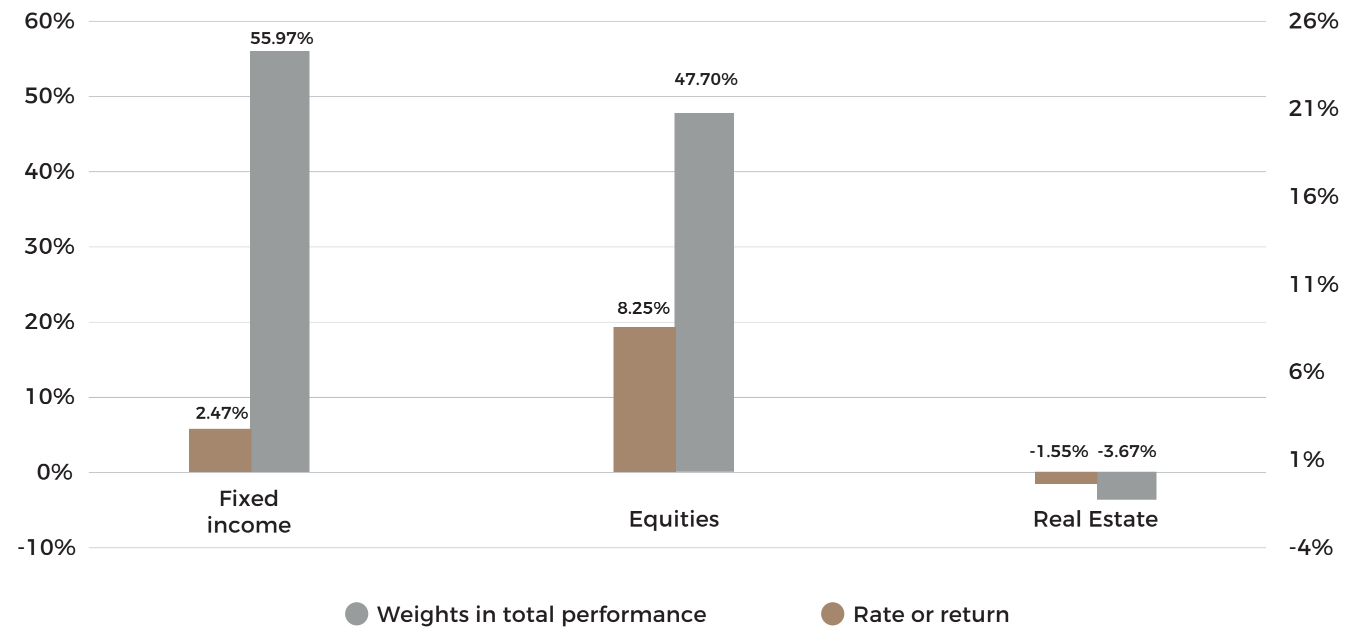


Chart 5.3.2. Cumulative monthly performance (in local currency)



In 2020, annual returns for fixed income, equity (public and private) and real estate investments were 2.47%, 8.25%, and -1.55%, respectively, while their corresponding contributions to the total performance of the investment portfolio (2.82%) accounted for 1.58%, 1.34% and -0.10%.

Chart 5.3.3. Performance of asset classes and weights of their contributions to total performance (2.82%)*



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

Chart 5.3.4. Cumulative monthly fixed income performance

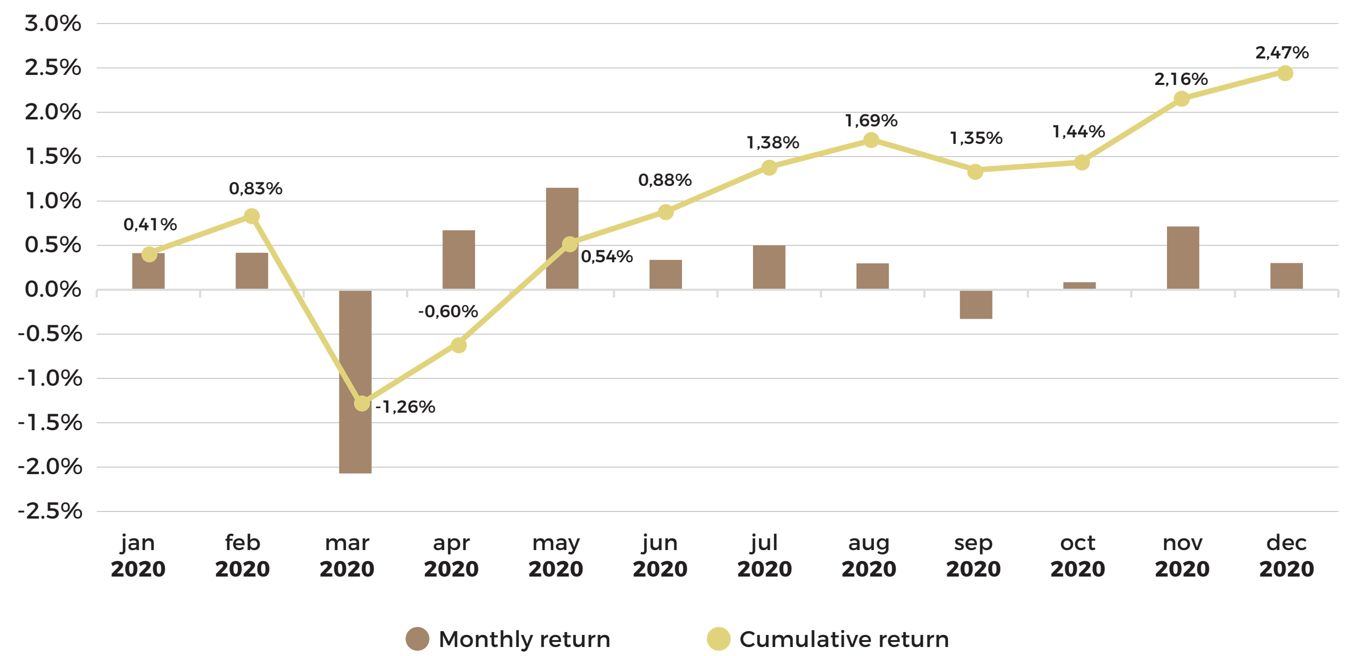


Chart 5.3.5. Cumulative monthly equity performance

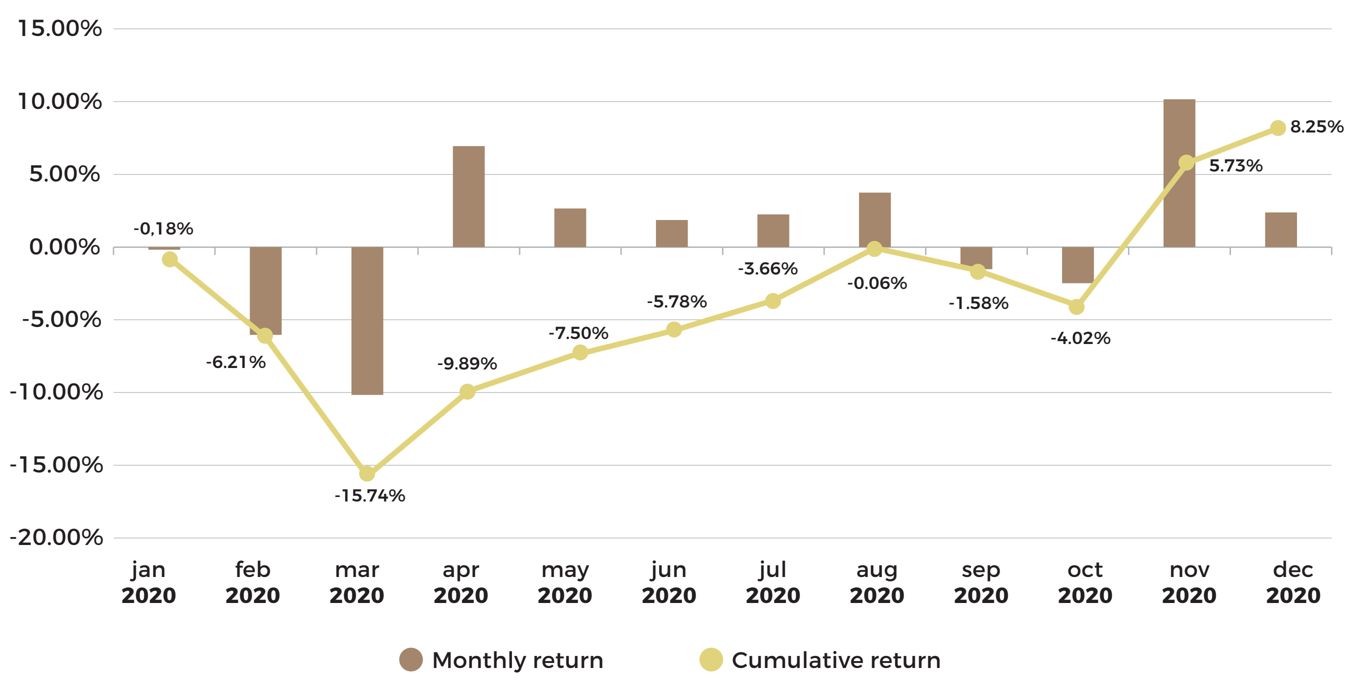
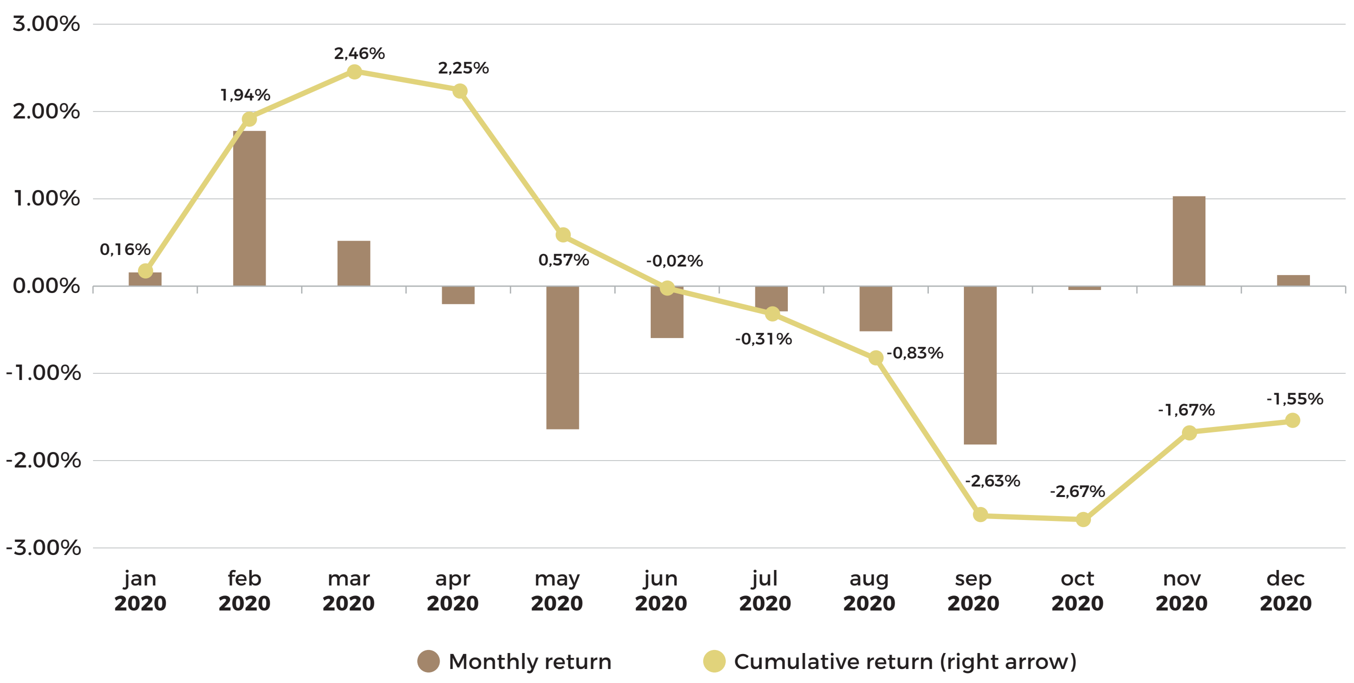


Chart 5.3.6. Cumulative monthly real estate performance



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 31 December 2020, the tracking errors on an annual basis were 9 bps, 9 bps, 5 bps, 9 bps, and 7 bps for the MSCI World index mandate portfolios managed by UBS, SSGA, Mellon, BlackRock and Sumitomo, respectively, and 24 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, 2020, SOFAZ's 20 day horizon 95% VaR accounted for USD 726 million compared to USD 389 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)

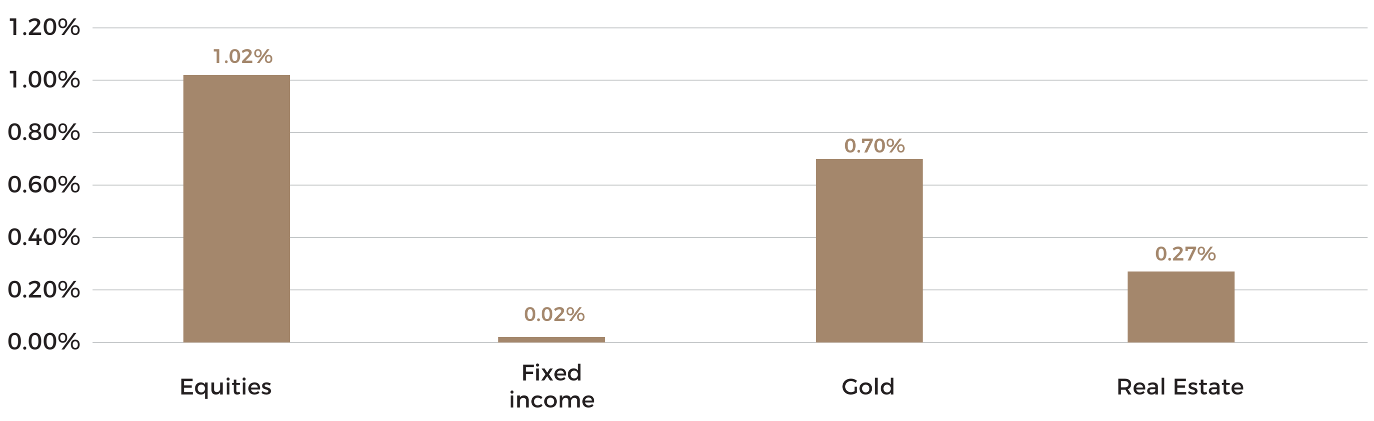


Chart 5.4.2. Contribution to equity VaR

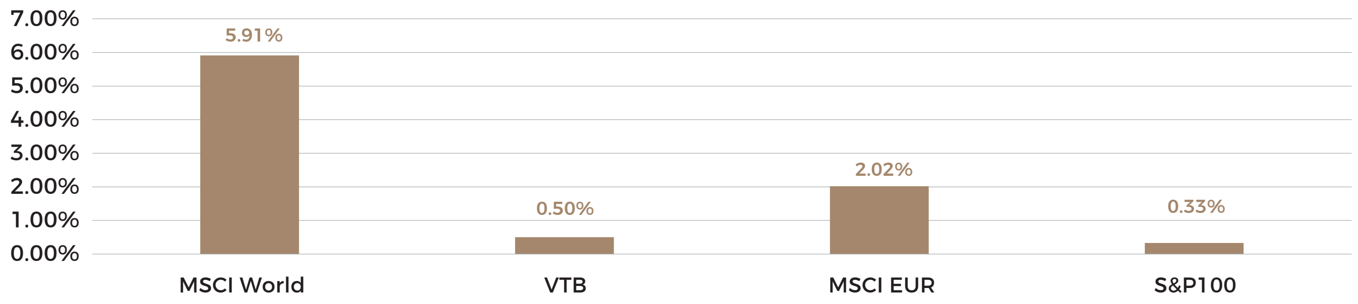
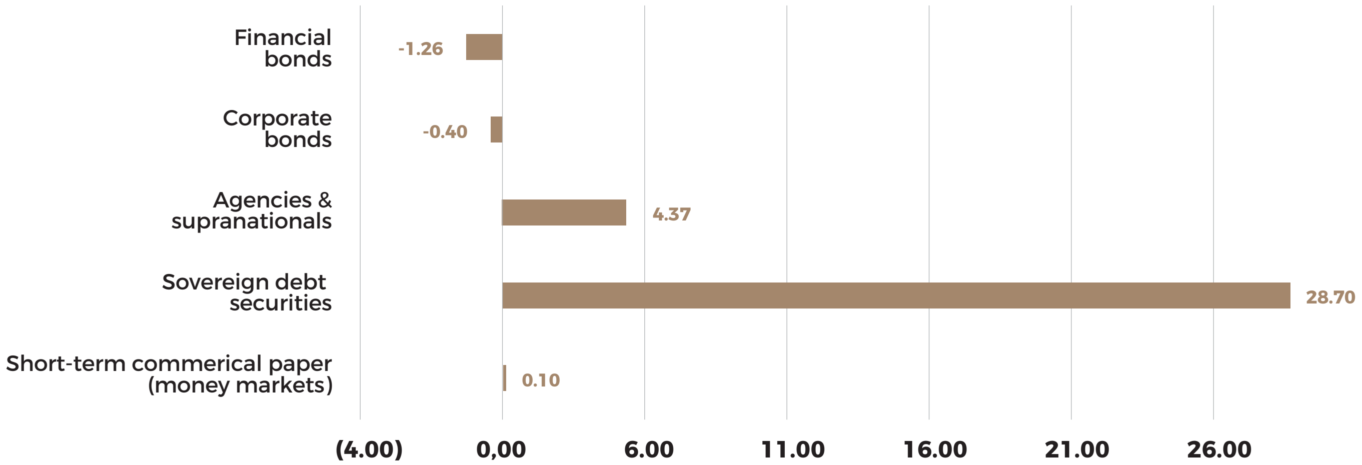
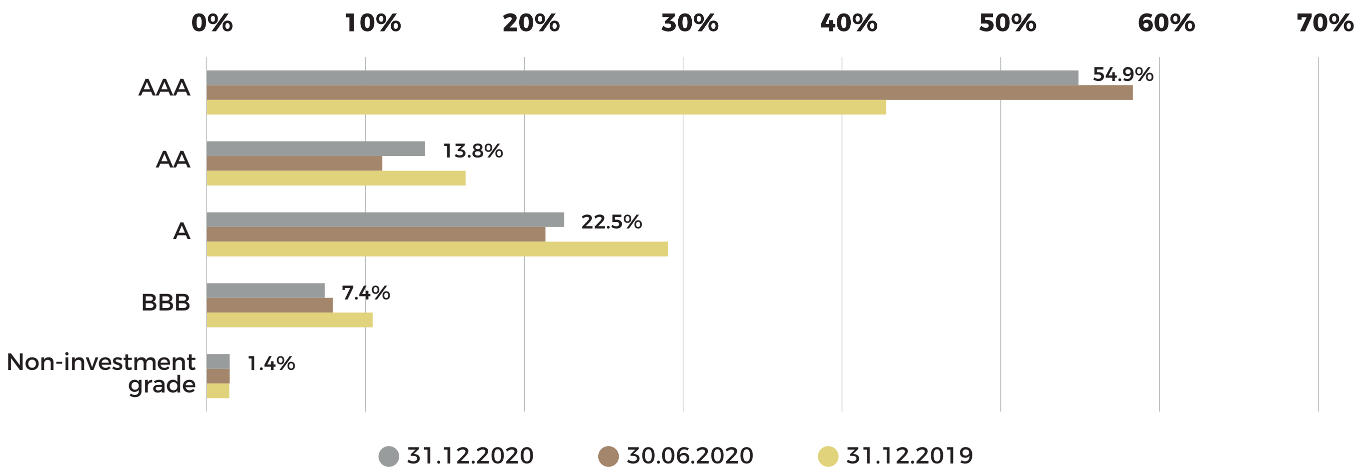


Chart 5.4.3. Contribution to fixed income VaR by product types (ex FX effect, bps)



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 2019 to 2020.

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



RESTORATION OF JUSTICE. RETURN TO KARABAKH

For decades Armenian nationalists vilified the Azerbaijani people, culture and identity, providing an ideological basis for political and military aggression against Azerbaijanis. The Armenians intensified their anti-Azerbaijani propaganda in the mid-1980s, making the most of opportunities provided by the Soviet regime.

Azerbaijanis were deported from their historical lands in Western Azerbaijan (present-day Armenian territory) in a new wave of expulsions in 1988-1989. As a result, 250,000 Azerbaijanis became refugees. Azerbaijani people protested against both the deportations and Armenian attempts to annex Nagorno-Karabakh. In January 1990, the Soviet Union responded by sending troops onto the streets of Azerbaijan, committing massacres in Baku.

As the state structure of the USSR weakened, Armenia sent armed groups and terrorists to Azerbaijan, exacerbating the situation in the region. Armenia made unfounded territorial claims against Azerbaijan and launched military operations. Thus, the conflict descended into all-out hostilities, although war was never declared.

The Armenians received considerable support from their patrons to seize Azerbaijani territory. Armenian forces committed the bloodiest massacre of the war, killing 613 residents of Khojaly, including women and children, as they fled the town. In 1993 the United Nations Security Council adopted four resolutions (822, 853, 874 and 884), demanding the complete, immediate and unconditional withdrawal of the occupiers from Azerbaijani territory. Armenia ignored the demands, disregarding international law.

In 1993, at the request of the Azerbaijani people when the country was on the brink of civil war and loss of independence, national leader Heydar Aliyev came to power. Our army then launched counter-offensive operations, liberating the town of Horadiz and areas near Fuzuli. However, the Bishkek Protocol signed in 1994 and mediated by Russia brought an end to the fighting and the conflict entered a long-term ceasefire. As a result of the undeclared war, the Republic of Azerbaijan lost one-fifth of its territory. More than one million Azerbaijanis were displaced from their homes, 20,000 Azerbaijanis lost their lives and over 100,000 were wounded.

Years of peace talks organized by the incompetent OSCE Minsk Group yielded no results. Emboldened by the inaction of the mediators, the Armenians not only refused to leave the occupied territories but also wanted to seize more land. In April 2016, Armenia launched another provocative attack. Our army counterattacked and drove Armenian separatists from several positions – near Lalatapa Heights and Jojug Marjanli village in Jabrayil district, Gulustan village in Goranboy district, and Sugovushan and Talysh villages in Tartar district.

After four days of fighting, Azerbaijan responded to the peace initiatives of foreign mediators and agreed to suspend military operations, demonstrating once again its preference for a peaceful solution to the conflict.

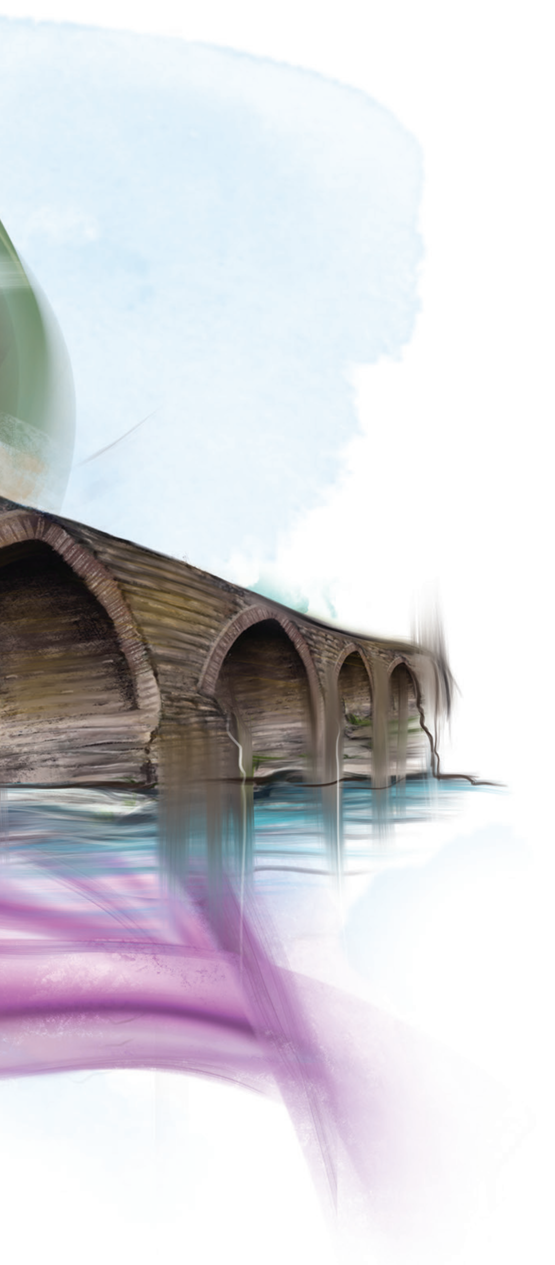
In late September 2020, Armenia again violated the ceasefire. Our army launched counter-offensive operations in response. The Azerbaijani army had clear superiority in the ensuing 44-day Patriotic War. Using modern military technology with precision targeting of only the enemy's military positions, the Azerbaijani army liberated the towns of Jabrayil, Fuzuli, Zangilan, Gubadli and Shusha from enemy occupation.

In violation of the laws of war, the Armenian military fired rockets and heavy artillery at towns and villages outside the conflict zone, killing 93 civilians and injuring 410 in Ganja, Tovuz, Barda and Tartar.

Armenian attacks on innocent civilians, demands of assistance from other countries and attempts to trap Azerbaijan all failed to help their cause. On November 9, 2020, the presidents of Azerbaijan, Russia and Armenia signed a declaration. The 44-day war resulted in the complete victory of Azerbaijan. As set out in the declaration, Aghdam was returned to Azerbaijani control on November 20, Kalbajar on November 25, and Lachin on December 1, thereby restoring the territorial integrity of Azerbaijan. The date of the liberation of Shusha, November 8, was declared Victory Day in Azerbaijan.

Under the decisive leadership of President Ilham Aliyev, the worthy successor of national leader Heydar Aliyev, the Victorious Army of Azerbaijan ended the 30-year occupation. The myth of the "invincible army" propagated by the Armenians for years was in tatters. Supreme Commander-in-Chief Ilham Aliyev showed his visionary outlook and comprehensive grasp of the situation in dozens of interviews during the war. He answered the provocative questions of pro-Armenian journalists with historical facts and evidence.

www.bbc.az
www.azerbaijans.az
www.virtualkarabakh.az



6. 2020 SOFAZ'S BUDGET EXECUTION

SOFAZ's budget for 2020 was approved by the Presidential Decree № 906 as of December 29, 2019. In 2020, the Fund's budgetary revenues and expenditures were approved at the level of AZN 12 384 088.2 thousand and AZN 11 589 910.3 thousand, respectively.

The quarantine regime implemented since March 2020 in response to the COVID-19 pandemic has caused a slump in most sectors of the national economy. New challenges that arose in the context of the measures taken to fight the pandemic, have necessitated an increase in the public expenditures. In order to secure the balance between the revenues and expenditures of the state and consolidated budgets, amendments were made to the Law of the Republic of Azerbaijan "On the state budget of the Republic of Azerbaijan in 2020" on August 07, 2020. At the same time, a decision was taken to delay the implementation of the fiscal rule until January 2022.

Due to the amendments to the 2020 state budget, the Decree of the President of the Republic of Azerbaijan as of 31 August, 2020, approved amendments to SOFAZ's budget for 2020 in order to specify its budgetary revenues and expenditures. According to this Decree, the Fund's budgetary revenues were revised to AZN 7 832 893.4 thousand as against the previous figure of AZN 12 384 088.2 thousand, while budgetary expenditures were raised from AZN 11 589 910.3 thousand to AZN 12 439 910.3 thousand. In 2020, the Fund's assets rose by USD 241.1 million (0.6%), reaching the level of USD 43 564.3 million.

In 2020, SOFAZ's total budget revenues constituted AZN 9 360.8 million, or USD 5 506,3 million, meaning that the sum conceived in the budget plan (AZN 7 832.9 million) was executed at the level of 119.5%. The overall revenues as expressed in US dollars were about twice as small as the respective figure in 2019 (USD 11 194.5 million), while the share of the revenues from the management of SOFAZ's assets constituted 21.1%. The deficit of the Fund's 2020 budget equaled AZN 3 064.5 million, or USD 1 802,4 million, which is lower than the figure envisaged in the budget (AZN 4 607.02 million) by AZN 1 542,5 million or USD 907,6 million. The execution of the Fund's asset management item by AZN 1 588.3 million above the forecast enabled a certain smoothening of the Fund's budget deficit. Despite this deficit, the Fund's total assets had risen by USD 241.1 million or 0.6% and reached to USD 43 564.3 million throughout 2020 thanks to the extra budgetary revenues.

Revenues. In 2020, the revenues accrued to SOFAZ were formed from the sales of the Republic of Azerbaijan's share of hydrocarbons, acreage fees, fees paid to Azerbaijan for the oil and gas transit through its territory (transit fees), bonus payments, and revenues from the management of SOFAZ's assets.

In 2020, **revenues from the sale of profit oil and gas** constituted AZN 6 587.3 million, or USD 3 874.9 million. Due to the OPEC+ countries' agreement on decreasing oil production, the volume of production at the Azeri-Chirag-Guneshli field in 2020 declined by 10.5% compared to the 2019 level (195.1 million barrel) and constituted 174.61 million barrels. On the other hand, the average sale price per barrel of oil constituted USD 41.2 (net price USD 38.46) in 2020, being sufficiently lower than the respective figure for 2019 (USD 64.0).

Within the framework of the execution of the Protocol Agreement on the management of revenues from the share of SOCAR in the Shah Deniz, Southern Caucasus pipeline and Southern Gas Corridor projects, concluded between the Ministry of Finance of the Republic of Azerbaijan, Ministry of Economics, State Oil Fund (SOFAZ) and State Oil Company (SOCAR), the amount of USD 41.37 million that accrued from the difference in price for crude oil sales in 2007-2008, was paid by SOCAR to SOFAZ. Moreover, due to the debt owed by SOCAR to the Azerbaijan Gas Supply Company (AGSC), the amount of USD 820.5 million that fell into the share of the Republic of Azerbaijan by the end of 2019 and was due to be paid by SOCAR to the AGSC, did not enter SOFAZ's budget. The amount not paid to SOFAZ due to SOCAR's debt to AGSC in 2020 equaled USD 314 million.

Acreage fees paid by the foreign investors working in the hydrocarbons production sector, made up for another source of SOFAZ's revenues in 2020. During the reporting year, in total USD 3.97 million or AZN 6.75 million transferred to SOFAZ, in accordance with the agreement signed between the State Oil Company of the Republic of Azerbaijan (SOCAR) and BP Exploration (Caspian Sea) Limited over exploration, development and production sharing of the Shafag-Asiman offshore block (SWAP) around the Absheron peninsula in Azerbaijani sector of the Caspian Sea, at the same time in accordance with the agreement signed between Equinor company and the oil company co-owned by SOCAR on exploration, development and production sharing of the Ashrafi Dan Ulduzu Field and the risk service agreement for the development of the Karabakh oil field. Budget revenues on this item were executed at the level of about 100.0% compared to the forecast.

The revenues obtained from **the transit of oil and gas through the territory of Azerbaijan** (transit fees) in the reference year amounted to USD 11.97 million, or AZN 20.36 million. Compared to the budgetary target of AZN 21.08 thousand, the abovementioned item was executed at 96.6%. The lower-than-expected execution of the transit fees is explained by the time difference between the timing of transportation and entry of the respective payment to the Fund.

In the reporting year, the bonus payments received by SOFAZ constituted AZN 767.8 million or USD 451.6 million, having been executed at 100.0%, compared to the budget plan (AZN 765.2 million). Revenues from this item was constituted 8.2% of total budget revenues.

In the reporting year, the revenues accrued to SOFAZ from the **management of its investment portfolio** equaled USD 1 163.9 million or AZN 1 978.6 million. Profitability of the investment portfolio was 2.82%.

Table 6.1 SOFAZ's budget revenues in 2020

№	Revenue sources	Total revenues (AZN million)		Execution (%)
		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, 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)	6 646.9	6 587.3	99.1
2	Acreage fees paid by investors per land they use for the exploitation of hydrocarbon reserves	6.7	6.7	100.0
3	Fees from the transit of oil and gas through the territory of the Republic of Azerbaijan	21.1	20.4	96.6
4	Bonus payments made by investors within the framework of signing or executing oil and gas contracts	767.8	767.8	100.0
5	Revenues obtained from the management of SOFAZ's assets	390.3	1 978.6	506.9
	Total revenues	**7 832.9**	**9 360.8**	**119.5**

Extra budgetary revenues. In 2020, SOFAZ's extra budgetary revenues that came from the appreciation of the foreign currencies that constitute SOFAZ's portfolio against the US dollar, amounted to USD 2 043.5 million, including USD 831.85 million accruing from US dollar, euro, British pound sterling and other currencies and USD 1 211.64 million accruing from gold.

Expenditures. In 2020, SOFAZ's budget expenditures constituted AZN 12 425.3 million and were executed at the level of 99.9% from the projected amount (AZN 12 439.9 million). In the reference year, SOFAZ's expenditure structure was as follows:

Financing measures aimed at ameliorating social and living conditions of the refugees and internally displaced persons. In 2020, 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 2020, a transfer of AZN 12 200.0 million from SOFAZ to the state budget was executed, 100% of the upper limit level approved in the budget project.

State Program for improving the international competitiveness of the higher education system of Azerbaijan in 2019-2023": The number of doctoral students sent abroad due to the pandemic was lower than planned, and despite the fact that 4 international double degree programs were planned in 2020, 3 programs were organized, all of which led to lower than projected funding for this Program. In 2020, in the SOFAZ's budget 10 million manat was considered to finance the Program. As of 31.12.2020, on the basis of the orders of the Ministry of Education of the Republic of Azerbaijan, SOFAZ allocated a total of 4.1 million manat to the relevant accounts in the Treasury Department No. 1 of the State Treasury Agency under the State Program, which was 41% against the forecast figure.

Expenditures related to the education of 29 doctoral students under the State Program as of 31.12.2020 were financed by SOFAZ.

By 31.12.2020, expenditures of **29** PhD students had been financed by the State Oil Fund within the framework of the State Program.

SOFAZ's administrative expenses. In 2020, SOFAZ's administrative expenditures amounted to AZN 21.2 million or 70.8% of the respective item as approved in the budget plan (AZN 29.9 million). This amount was 12.8% below the respective figure for 2019.

Compensation of labor costs in the structure of administrative expenses was AZN 7 513.4 thousand and was executed at the level of 82.8% against the forecast. Expenditures on procurement of goods (works and services) item was executed at the level of AZN 11 154.9 thousand, or 64.4% of forecast. Expenditures on social benefits item equaled AZN 14.5 thousand, or 32.2% of the forecast. Expenditure on the acquisition of non-financial assets amounted to AZN 2 504.4 thousand which was 72.3% of the projected amount.

Table 6.2. The execution of the internal expenditures draft in 2020

Item	2020		
	Approved	Executed	Executed (%)
Employees' salaries	9 073.2	7 513.4	82.8%
Procurement of goods (works and services)	17 326.2	11 154.9	64.4%
Social payments	45.0	14.5	32.2%
Non-financial assets	3 465.8	2 504.4	72.3%
Total	**29 910.3**	**21 187.2**	**70.8%**

As it can be seen from the table, administrative expenditures in 2020 were executed 29.2% below the envisaged level. The actual expenditures on the procurement of good, which constituted 57.9% of the total approved expenditures, were executed at 64% from the expected level, which was the major reason why the total forecast had not been fully fulfilled. The effects of the pandemic were the reason why the subgroups of the aforementioned expenditure items-representation and promotion (0%), purchase of supply (40.3 %), membership fees to international organizations (97.6 %), purchase of work and services (66.5%) were not fully executed. Since the number of tender participants fell due to the pandemic, a number of contracts were not signed and postponed to the following year, non-material assets which constitute the major group within the non-financial assets were not executed at the expected level.

Table 6.3. SOFAZ's budget expenditures in 2020

№	Expenditure directions	Expenditures (AZN million)		Execution (%)
		Approved	Actual	
1	Funding the measures aimed at improving socioeconomic conditions of refugees and IDPs	200.00	200.00	100.00
2	Transfer to the 2020 state budget of the Republic of Azerbaijan	12 200.0	12 200.0	100.0
3	State Program on improving the competitiveness of the higher education system of Azerbaijan in 2019-2023	10.00	4.1	41.0
4	Administrative expenditures	29.91	21.2	70.8
	Total expenditures	**12 439.91**	**12 425.3**	**99.9**

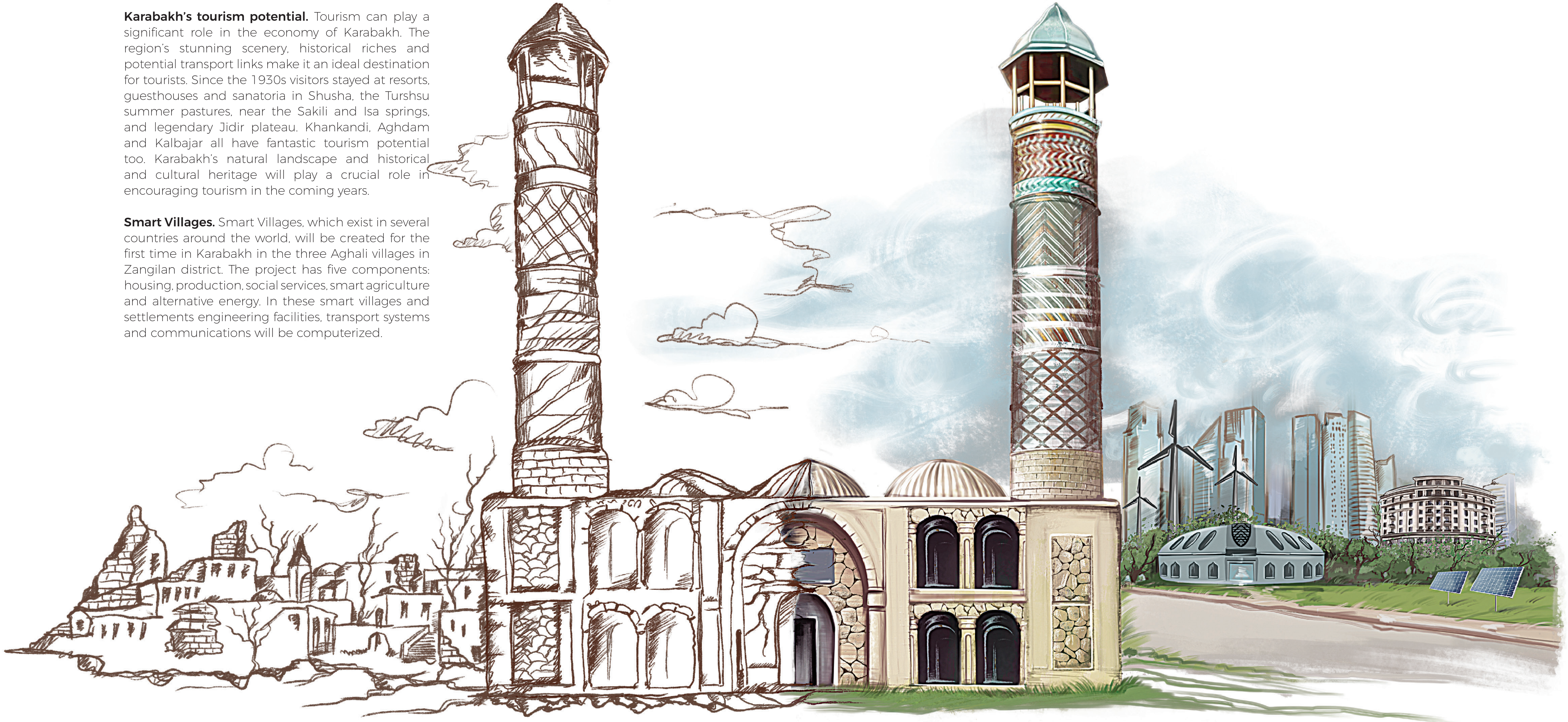
REVIVAL OF KARABAKH

The brave Azerbaijani army led by Supreme Commander-in-Chief Ilham Aliyev has freed Karabakh from occupation. The main task now is to bring our liberated lands back to life, to restore the vandalized settlements and historic monuments. This great mission of the Azerbaijani people and state has already begun.

On January 4, 2021, President Aliyev signed a decree on the establishment of the Karabakh Revival Fund, a public legal entity. The fund supports construction and restoration in the liberated territories in order to create safe, modern living conditions and revive the economy.

Karabakh's tourism potential. Tourism can play a significant role in the economy of Karabakh. The region's stunning scenery, historical riches and potential transport links make it an ideal destination for tourists. Since the 1930s visitors stayed at resorts, guesthouses and sanatoria in Shusha, the Turshsu summer pastures, near the Sakili and Isa springs, and legendary Jidir plateau. Khankandi, Aghdam and Kalbajar all have fantastic tourism potential too. Karabakh's natural landscape and historical and cultural heritage will play a crucial role in encouraging tourism in the coming years.

Smart Villages. Smart Villages, which exist in several countries around the world, will be created for the first time in Karabakh in the three Aghali villages in Zangilan district. The project has five components: housing, production, social services, smart agriculture and alternative energy. In these smart villages and settlements engineering facilities, transport systems and communications will be computerized.



Energy from alternative sources will be supplied to all residential houses, social facilities, administrative and public buildings, and agricultural production and processing facilities. Specialists from Turkish, Chinese, Italian and Israeli companies will also take part in the project. Residents of the smart villages will have excellent opportunities for agriculture, including arable farming and animal husbandry. Both raw and processed produce will be supplied to domestic and foreign markets.

Transport infrastructure projects. Construction of Fuzuli International Airport has already begun on the order of President Ilham Aliyev. The airport will play a key role in developing Karabakh as a whole, as well as boosting Fuzuli as a transport hub.

At the same time, a road just over 100 km in length is being built from Fuzuli to Shusha. The road is to be called Victory Road, as it follows the route taken by our soldiers when they entered the city of Shusha to liberate it from the enemy.
The section of railway between Horadiz, Zangilan and Aghband will be restored. This will be an important step towards reopening the 140-year-old railway to Nakhchivan, which will provide another rail link between Azerbaijan and Turkey.

Shusha as the Capital of Culture. Shusha has historically been one of the most important centres of cultural, social and political life in Azerbaijan. After the liberation, an inventory of damage to the city, including its historical and cultural heritage and flora and fauna, was carried out immediately. Then restoration began. Shusha was declared the Cultural Capital of Azerbaijan by order of President Aliyev on May 7, 2021.

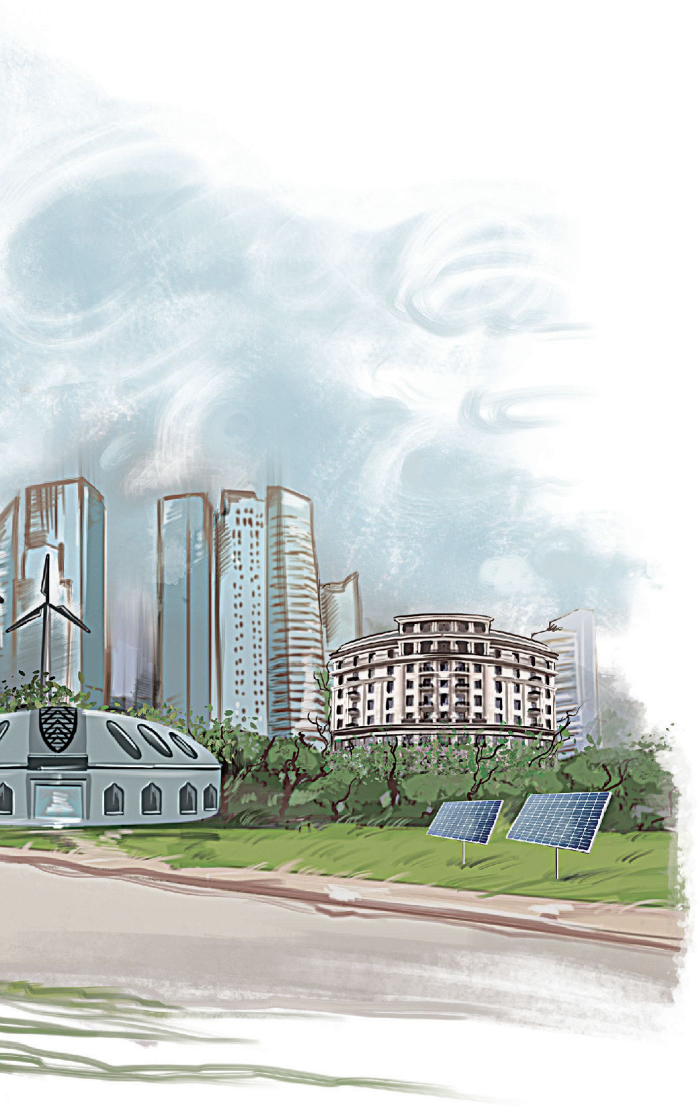
Kharibulbul festival. The first Kharibulbul festival was held in 1989 in Shusha to mark the centenary of the famous *mugham* singer Seyid Shushinsky. In subsequent years visitors from around the world attended the festival. The fourth festival, scheduled for May 15, 1992, would have been the largest ever, but it did not take place due to the military occupation of Shusha. Twenty-nine years later, on May 12, 2021, Azerbaijan's cultural capital Shusha again hosted the Kharibulbul Music Festival. A festival dedicated to 18th century poet and thinker Molla Panah Vagif was held at the poet's restored mausoleum and museum complex in Shusha on August 30 and 31, 2021. Both festivals were organized by the Heydar Aliyev Foundation.

www.azerbaijan-news.az
www.sherg.az
www.apa.az
www.serqqapisi.az

7. CONSOLIDATED FINANCIAL STATEMENTS OF SOFAZ

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

31 December 2020



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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 consolidated financial position of the State Oil Fund of the Republic of Azerbaijan (the "SOFAZ") and its subsidiaries (together - the "Fund") as at 31 December 2020, and the Fund's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Fund's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2020;
- 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 oblained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 i 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 Fund audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan
21 May 2021

PricewaterhouseCoopers Audit Azerbaijan LLC
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Consolidated statement of financial position

In thousands of Azerbaijani Manats	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Investment properties	10	1,784,534	2,517,219
Property and equipments		121,746	124,723
Intangible assets		59	2,632
Investments in joint ventures	11	1,053,977	1,047,199
Total non-current assets		**2,960,316**	**3,691,773**
Current assets			
Cash and cash equivalents	7	4,059,687	2,590,446
Term deposits		2,352	7,577
Financial assets at fair value through profit or loss	8	56,870,415	59,612,520
Gold bullion	9	10,490,279	8,381,163
Other current assets		20,244	27,677
Total current assets		**71,442,977**	**70,619,383**
TOTAL ASSETS		**74,403,293**	**74,311,156**
Equity			
Contributed capital		32,507,771	37,529,718
Foreign currency translation reserve		976,768	776,386
Retained earnings		40,268,812	34,908,734
Equity attributable to the owner		73,753,351	73,214,838
Non-controlling interest		7,608	7,502
Total equity		**73,760,959**	**73,222,340**
Liabilities			
Non-current liabilities			
Borrowings of subsidiaries		515,327	928,066
Tenancy deposits		12,248	49,302
Deferred tax liability		12,050	15,894
Lease liabilities		80,054	77,792
Total non-current liabilities	13	619,679	1,071,054
Current liabilities		22,655	17,762
TOTAL LIABILITIES		642,334	1,088,816
TOTAL EQUITY AND LIABILITIES		74,403,293	74,311,156

The notes set out on pages 80 to 123 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	2020	2019
Interest income calculated using the effective interest method		64,364	40,914
Interest income from financial assets at fair value through profit or loss	14	702,657	922,538
Dividend income		340,998	390,334
Net gain/(loss) on foreign currency translation differences	15	1,243,580	(524,267)
Net gain on financial assets at fair value through profit or loss	16	953,919	2,245,291
Net gain on gold bullions	9	2,059,788	1,194,590
Net fair value (loss)/gain on revaluation of investment properties	10	(115,164)	64,971
Rental income		63,915	75,724
Other operating income		13,899	32,937
Total operating income		**5,327,956**	**4,443,032**
Operating expenses	17	(87,460)	(103,437)
Share of after-tax results of joint venture	11	32,871	(22,056)
Gain on disposal of subsidiary		86,149	-
Profit before income tax		**5,359,516**	**4,317,539**
Income tax benefit/(charge)	19	593	(1,320)
Net profit for the year		**5,360,109**	**4,316,219**
Other comprehensive income: Items that may be reclassified subsequently to profit or loss Translation of financial information of foreign operations to presentation currency		203,805	12,209
Other comprehensive income for the year		**203,805**	**12,209**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,563,914**	**4,328,428**
Profit is attributable to: - The owner - Non-controlling interest		5,360,078 31	4,316,070 149
Profit for the year		**5,360,109**	**4,316,219**
Total comprehensive income is attributable to: - The owner - Non-controlling interest		5,560,460 3,454	4,325,491 2,937
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,563,914**	**4,328,428**

The notes set out on pages 80 to 123 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In thousands of Azerbaijani Manats	Note	Attributable to the Owner				Non-controlling interest	Total Equity
		Contributed capital	Currency translation reserve	Retained earnings	Total		
Balance at 1 January 2019		**33,689,328**	**766,965**	**30,592,664**	**65,048,957**	**8,436**	**65,057,393**
Profit for the year		-	-	4,316,070	4,316,070	149	4,316,219
Other comprehensive income		-	9,421	-	9,421	2,788	12,209
Total comprehensive income for 2019		**-**	**9,421**	**4,316,070**	**4,325,491**	**2,937**	**4,328,428**
Contributions received	12	15,404,690	-	-	15,404,690	-	15,404,690
Exchange translation differences			**-**	**-**	**-**	**(3,871)**	**(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 Internally Displaced Persons 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**	**7,502**	**73,222,340**
Profit for the year		-	-	5,360,078	5,360,078	31	5,360,109
Other comprehensive income		-	200,382	-	200,382	3,423	203,805
Total comprehensive income for 2020		**-**	**200,382**	**5,360,078**	**5,560,460**	**3,454**	**5,563,914**
Contributions received	**12**	**7,382,154**	**-**	**-**	**7,382,154**	**-**	**7,382,154**
Exchange translation differences		**-**	**-**	**-**	**-**	**(3,348)**	**(3,348)**
Transfers to the State Budget	18	(12,200,000)	-	-	(12,200,000)	-	(12,200,000)
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	(199,998)	-	-	(199,998)	-	(199,998)
Transfers for the State Program on "Education of Azerbaijani youth abroad"	18	(4,103)	-	-	(4,103)	-	(4,103)
Balance at 31 December 2020		**32,507,771**	**976,768**	**40,268,812**	**73,753,351**	**7,608**	**73,760,959**

The notes set out on pages 80 to 123 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

In thousands of Azerbaijani Manats	Notes	2020	2019
Cash flows from operating activities:			
Profit before income tax expense		5,359,516	4,317,539
Adjustments to reconcile result to net cash used in operating activities			
Depreciation of property and equipment		3,039	3,445
Amortization of intangible assets		2,585	2,781
Unrealized gain on change in fair value of financial assets at fair value through profit or loss	16	(318,322)	(2,164,974)
Net unrealized (gain)/loss on foreign currency translation differences		(1,434,503)	494,041
Net gain on revaluation of gold bullion	9	(2,059,788)	(1,194,590)
Fair value loss/(gain) on revaluation of investment properties	10	115,164	(64,971)
Share of after-tax results of joint venture	11	(32,871)	22,056
Interest income		(767,021)	(963,452)
Dividend income		(340,998)	(390,334)
Write-down of VAT receivables and current income tax asset		-	18
Changes in operating assets and liabilities:			
Decrease/(increase) in financial assets at fair value through profit or loss	8	4,689,303	(379,693)
Decrease/(increase) in term deposits		5,225	(7,577)
Purchase of gold bullions	9	(49,328)	(3,628,327)
Increase in investment properties	10	(65,793)	(10,093)
Decrease/(increase) in other assets		7,433	(1,875)
Increase in current liabilities		4,893	1,823
Decrease in non-current liabilities		(38,958)	-
Net cash from/(used in) operating activities		**5,079,576**	**(3,964,183)**
Cash flows from investing activities:			
Interest received		632,545	761,551
Dividend received		340,998	390,334
Dividend received from joint venture		5,223	19,053
Proceeds from disposal of investment property	10	757,263	213,099
Capital repayment from jointly controlled entity	11	36,000	76,500
Purchase of property and equipment		(74)	(688)
Net cash from investing activities		**1,771,955**	**1,459,849**
Cash flows from financing activities:			
Contributions received	12	7,382,154	15,404,690
Transfers to the State Budget	18	(12,200,000)	(11,364,300)
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	(199,998)	(200,000)
Transfers for the State Program on "Education of Azerbaijani youth abroad"	18	(4,103)	-
Repayment of borrowings	13	(440,100)	-
Net cash (used in)/from financing activities		**(5,462,047)**	**3,840,390**
Effect of exchange rate changes on cash and cash equivalents		**79,757**	**(10,198)**
Net increase in cash and cash equivalents		**1,469,241**	**1,325,858**
Cash and cash equivalents, beginning of the year	**7**	**2,590,446**	**1,264,588**
Cash and cash equivalents, end of the year	**7**	**4,059,687**	**2,590,446**

The notes set out on pages 80 to 123 form an integral part of these consolidated financial statements.

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 2020 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 acquisi-tion	Industry
	2020	Ölkə				
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	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 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 2020 and 2019, 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 2020 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

Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by government as well as crude oil prices and stability of Azerbaijani's currency, manat. Following the sharp economic contraction in 2016 due to negative impact of the decline in oil prices and devaluations of national currency against major international currencies, the Azerbaijani government accelerated reforms in support of long-term economic stability and sustainability. Based on the economic reforms involving institutional changes, inflation stabilized at a low single-digit rate, the economic growth remained positive, the currency exchange rate – sustainable, and the country's foreign sector exhibited positive trends. Oil production has peaked and is likely to decline in the medium term. We anticipate that this trend will only be partly offset by an expansion of gas production.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Azerbaijani authorities implemented numerous measures attempting to contain the spread and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. The above measures were intermittently relaxed and put back again in December 2020. These measures have, among other things, restricted economic activity in Azerbaijan, particularly services sector and foreign trade, and have negatively impacted, and could continue to negatively impact businesses for some time in the future. Notwithstanding their adverse effect on these sectors, such measures helped containing the pandemic and allowed partial openings beginning in February 2021. Also in February 2021, Moody's rated Azerbaijan's economy as "Ba2" with stable outlook. Notwithstanding of the coronavirus pandemic, the agency's view of the country's resilience to external shocks is encouraging. In addition, most major economic organizations, including IMF and World Bank, forecast the country's GDP to grow by about 3% this year.

In addition to the hardship brought on by the pandemic, during late September 2020, renewed hostilities broke out between Azerbaijan and Armenia over Armenian-occupied Nagorno-Karabakh and territories surrounding Nagorno-Karabakh. Azerbaijan introduced martial law along with curfew and subsequently liberated its occupied territories over the following six weeks. According to the ceasefire agreement, all military operations in Nagorno-Karabakh and surrounding areas have been suspended since 10 November 2020. It is expected that this agreement will unblock transport and communications in the region, which will stimulate economic growth even further.

In light of the foregoing, the Fund's management continues to monitor macroeconomic conditions in the country and beyond to determine what measures may be required to support the Fund's growth and development strategy.

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 at 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. 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 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 2020, the principal rates of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000; EUR 1 = AZN 2.0890; KRW 100 = AZN 0.1565; GBP 1 = AZN 2.3021; JPY 100 = AZN 1.6456; RUB 1 = AZN 0.0231 (2019: 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). The principal average rate of exchange used for translating income and expenses was USD 1 = AZN 1.7000; EUR 1 = AZN 1.9448; KRW 100 = AZN 0.1445; GBP 1 = AZN 2.1868; JPY 100 = AZN 1.5944; RUB 1 = AZN 0.0236 (2019: 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).

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.

MFinancial 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. 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.

FAccounting 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.

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 458,233 thousand (31 December 2019: decrease in net assets of AZN 431,053 thousand) and decrease in profit by AZN 2,926 thousand (2019: decrease of AZN 18,712 thousand). Refer to Note 25 for further information about the structured entitiy.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Fund:
- 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).
- Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).

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 2021 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.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- **Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:**

For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- **End date for Phase 1 relief for non contractually specified risk components in hedging relationships:**

Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- **Additional temporary exceptions from applying specific hedge accounting requirements:**

The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

- **Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of:**

(i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.
The Fund is currently assessing the impact of the amendments on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Fund when adopted:
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).
- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

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	2020	2019
Bank accounts	2,794,016	1,160,617
Money market funds	1,255,741	1,429,032
Short-term deposits	9,930	797
Total cash and cash equivalents	**4,059,687**	**2,590,446**

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 holds all money market fund investments in BlackRock ICS-Institution Liquidity Funds plc with AAA credit rating.

Bank accounts

Bank accounts were denominated in the following currencies:

In thousands of Azerbaijani Manats	2020	2019
USD	1,978,437	694,638
EUR	732,231	340,082
JPY	53,027	43,175
GBP	13,024	67,599
TRY	6,981	4,434
AUD	2,850	2,108
CNY	1,741	1,349
AZN	1,622	1,010
CHF	1,167	1,946
CAD	980	822
SEK	530	75
RUB	448	398
SGD	260	220
HKD	173	435
DKK	168	208
ILS	149	93
NZD	125	143
NOK	103	406
KRW	-	1,476
Total bank accounts	**2,794,016**	**1,160,617**

As at 31 December 2020, the Fund had AZN 116 thousand and AZN 1,531,561 thousand (2019: AZN 71 thousand and AZN 972 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 2020:

In thousands of Azerbaijani Manats	Bank Account	Short term Deposit	Money Market Funds	Total
Neither past due nor impaired				
AAA	-	-	1,255,741	1,255,741
AA	501	-	-	501
A	868,111	4,420	-	872,531
BBB*	386,745	5,510	-	392,255
B	7,098	-	-	7,098
Total cash and cash equivalents**	**1,262,455**	**9,930**	**1,255,741**	**2,528,126**

*- AZN 445 thousand (2019: AZN 397 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 1,531,561 thousand (2019: AZN 972 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 2019:

In thousands of Azerbaijani Manats	Bank Account	Short term Deposit	Money Market Funds	Total
Neither past due nor impaired				
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**

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	2020	2019
Agency/Supranational bonds	12,276,695	9,293,635
Corporate bonds	17,158,399	25,200,773
Sovereign bonds	13,683,076	12,429,189
Equity securities	9,072,839	8,036,393
Private Equity Funds	1,348,519	902,260
Real Estate Funds	3,239,097	2,608,665
Money Market	91,790	1,141,605
Total financial assets at fair value through profit or loss	**56,870,415**	**59,612,520**

As at 31 December 2020 the Fund held AZN 9,029,638 thousand (2019: AZN 7,887,278 thousand) under asset management agreements with financial institutions ("external managers") including cash and cash equivalents. The management fees in 2020 to the external managers were AZN 3,098 thousand (2019: AZN 2,850 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 2020 these securities bear fixed interest ranging from 0.06% p.a. 6.25% p.a. and USD LIBOR, GBP LIBOR, CNY 5-day average SHIBOR with the spread ranging from -1.00% p.a. to +0.925% p.a. (2019: 0.06% p.a. 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.) and mature during the period from January 2021 to November 2024 (2019: January 2020 to November 2024). As at 31 December 2020 total accrued interest on these securities amounted AZN 33,478 thousand (2019: AZN 39,672 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 2020 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 +0.23% p.a. to +4% p.a.(2019: 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.) and mature during the period from January 2021 to January 2031 (2019: January 2020 to January 2031). As at 31 December 2020 total accrued interest on these securities amounted AZN 871,043 thousand (2019: AZN 740,269 thousand). These securities were held in the portfolio managed both directly by the Fund and the Fund's external manager DWS International GmbH.

Sovereign bonds. Sovereign bonds are represented by investments in debt securities issued by various European, Asian, Australian and American institutions. As at 31 December 2020 these securities bear fixed interest ranging from 0.0% p.a. (zero-coupon sovereigns expressed in TRY) to 20.9% p.a (2019: 0.0% p.a. (zero-coupon sovereigns expressed in TRY and GBP) to 11.75% p.a) and mature during the period from January 2021 to February 2036 (2019: January 2020 to May 2029). As at 31 December 2020 total accrued interest on these securities amounted AZN 69,709 thousand (2019: AZN 60,900 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 2020 the fair value of Fund's investment in "IFC GIF" was AZN 158,893 thousand (2019: AZN 144,707 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 2020 the fair value of Fund's investment in "IFC CF" was AZN 66,136 thousand (2019: AZN 69,395 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 2020 the fair value of Fund's investment in "IFC ALAC" was AZN 43,657 thousand (2019: AZN 51,370 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 2020 the fair value of Fund's investment in "NB Caspian Partners" was AZN 369,592 thousand (2019: AZN 272,208 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 2020 the fair value of Fund's investment in "EBRD EPF" was AZN 98,604 thousand (2019: AZN 70,838 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 2020 the fair value of Fund's investment in "BC European Capital X" was AZN 137,686 thousand (2019: AZN 82,523 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 2020 the fair value of Fund's investment in "FSI Mid-Market Growth Equity Fund" was AZN 16,482 thousand (2019: AZN 13,480 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 2020 the fair value of Fund's investment in "Blackstone Core Equity Partners L.P." was AZN 88,100 thousand (2019: AZN 75,255 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 2020 the fair value of Fund's investment in "Apollo Fund IX" was AZN 35,895 thousand (2019: AZN 23,674 thousand).

"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 2020 the fair value of Fund's investment in "Carlyle Partners VII" was AZN 37,298 thousand (2019: AZN 18,566 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 2020 the fair value of Fund's investment in "Carlyle Europe Partners V" was AZN 19,948 thousand (2019: AZN 14,055 thousand).

"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 2020 the fair value of Fund's investment in "Vista Equity Partners VII" was AZN 34,557 thousand (2019: AZN 16,012 thousand).

"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 2020 the fair value of Fund's investment in "Warburg Pincus Global Growth" was AZN 38,118 thousand (2019: AZN 12,530 thousand).

"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 2020 the fair value of Fund's investment in "PAG Asia Capital Fund III" was AZN 11,870 thousand (2019: AZN 2,771 thousand).

"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 2020 the fair value of Fund's investment in "Thoma Bravo Fund XIII" was AZN 37,273 thousand (2019: AZN 14,097 thousand).

"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 2020 the fair value of Fund's investment in "Baring Private Equity Asia VII" was AZN 68,334 thousand (2019: AZN 17,914 thousand).

"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 2020 the fair value of Fund's investment in "Dyal Capital Partners IV" was AZN 12,358 thousand (2019: AZN 2,865 thousand).

"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 2020 the fair value of Fund's investment in "Cinven Fund VII" was AZN 11,022 thousand (2019: nil).

"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 2020 the fair value of Fund's investment in "Green Equity Investors VIII" was AZN 11,188 thousand (2019: nil).

"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 2020 the fair value of Fund's investment in "Brookfield Infrastructure Fund IV" was AZN 40,694 thousand (2019: nil).

"Vitruvian Investment Partners IV" is an independent European private equity firm that invests in dynamic situations, including buyouts and growth capital investments. Vitruvian Partners is dedicated to investing in the growth-orientated middle-market across a range of business sectors, these include technology, media, telecoms, financial services, business services, and healthcare and consumer sectors. The Fund's commitment to "Vitruvian Investment Partners IV" is EUR 40,000 thousand. As of 31 December 2020 the fair value of Fund's investment in "Vitruvian Investment Partners IV" was AZN 1,032 thousand (2019: nil).

"Thoma Bravo Explore Fund" is focused on investing in software companies and is known for its "buy and build" investment strategy and process. Mainly focused on software with end users of various businesses and individual customers. Specialized investment team with deep industry knowledge focused on effective cooperation with management team of portfolio companies. The Fund's commitment to "Thoma Bravo Explore Fund" is EUR 30,000 thousand. As of 31 December 2020 the fair value of Fund's investment in "Thoma Bravo Explore Fund" was AZN 9,782 thousand (2019: nil).

"CVC Capital Partners VIII" is focused on large buyout market and targets well established, cash generating companies. CVC Capital Partners, the global private equity and investment advisory firm with a network of offices across Europe, the Americas and the Asia-Pacific regions. The Fund's commitment to "CVC Capital Partners VIII" is EUR 40,000 thousand. As of 31 December 2020 the fund has not drawn capital from the Fund yet.

"KKR Asian Fund IV" KKR focuses on sourcing investments that have strong potential for growth and operational improvement through effective portfolio management through main principal thematic investments. The Fund's commitment to "KKR Asian Fund IV" is EUR 40,000 thousand. As of 31 December 2020 the fund has not drawn capital from the Fund yet.

"Ares Corporate Opportunities Fund VI" is publicly traded, leading global alternative asset manager. Ares utilizes flexible capital strategy which has employed in all prior Ares corporate opportunities funds. The Fund's commitment to "Ares Corporate Opportunities Fund VI" is EUR 40,000 thousand. As of 31 December 2020 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 2020 the fair value of Fund's investment in PEVAV was AZN 79,332 thousand (2019: AZN 82,407 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 2020 the fair value of Fund's investment in EVP was AZN 154,764 thousand (2019: AZN 145,704 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 2020 the fair value of Fund's investment in BREP Europe V was AZN 202,695 thousand (2019: AZN 183,161 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 2020 the fair value of Fund's investment in PREP was AZN 74,135 thousand (2019: AZN 163,248 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 2020 the fair value of Fund's investment in ASPF III was AZN 73,895 thousand (2019: AZN 83,303 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 2020 the fair value of Fund's investment in RJLF II was AZN 213,211 thousand (2019: AZN 189,352 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 2020 the fair value of Fund's investment in EPF IV Feeder was AZN 64,068 thousand (2019: AZN 63,889 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 2020 the fair value of Fund's investment in GREF V was AZN 47,788 thousand (2019: AZN 50,932 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 2020 the fair value of Fund's investment in GAW US Fund III was AZN 51,221 thousand (2019: 28,140 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 2020 the fair value of Fund's investment in WSREF VIII was AZN 97,147 thousand (2019: AZN 105,023 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 2020 the fair value of Fund's investment in AG Commercial R.E Debt Fund was AZN 64,490 thousand (2019: AZN 91,016 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 2020 the fair value of Fund's investment in AG Realty Value Fund was AZN 64,955 thousand (2019: AZN 32,909 thousand).

"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 2020 the fair value of Fund's investment in Ares US IX was AZN 131,001 thousand (2019: AZN 89,712 thousand).

The Fund made a value-add mixed-use co-invesment 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 2020 the fair value of Fund's investment in this asset was AZN 31,890 thousand (2019: AZN 31,553 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 2020 the fair value of Fund's investment in SOF XI was AZN 148,983 thousand (2019: AZN 72,161 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 2020 value of Fund's investment in PREP II was 107,366 AZN thousand (2019: AZN 90,289 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 2020 the fair value of Fund's investment in GreenOak was AZN 65,680 thousand (2019: AZN 46,765 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 2020 the fair value of the Fund's share in this co-investment was AZN 100,251 thousand (2019: AZN 99,330 thousand).

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 2020 the fair value of Fund's share in this co-investment was AZN 643 thousand (2019: AZN 46,136 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 2020 the fair value of Fund's share in this co-investment was AZN 3 thousand (2019: AZN 307 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 2020 the fair value of Fund's share in this co-investment was AZN 23,857 thousand (2019: AZN 23,166 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 2020 the fair value of Fund's share in this co-investment was AZN 71,112 thousand (2019: AZN 43,599 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 2020 the fair value of Fund's share in this co-investment was AZN 102,812 thousand (2019: AZN 99,104 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 2020 the fair value of Fund's investment in BREP Europe VI was AZN 73,463 thousand (2019: AZN 8,516 thousand).

"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 2020 the fair value of Fund's investment in BPP U.S. was AZN 320,212 thousand (2019: AZN 340,000 thousand).

"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 2020 the fair value of Fund's investment in FLE was AZN 219,166 thousand (2019: AZN 193,473 thousand).

"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 2020 the fair value of Fund's investment in GREF VI was AZN 56,377 thousand (2019: AZN 31,508 thousand).

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 2020 the fair value of Fund's share in this co-investment was AZN 59,629 thousand (2019: AZN 85,000 thousand).

"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 2020 the fair value of Fund's investment in EVP II was AZN 29,589 thousand (2019: AZN 30,770 thousand).

"Blackstone BioMed Life Science Real Estate" is the second largest owner of life science office buildings in the U.S. The portfolio consists of 80 assets totalling 11M SF with 100% of value in core life science markets. The Fund's equity portion in the co-investment is USD 100,000 thousand. As of 31 December 2020 the fair value of Fund's investment in "Blackstone BioMed Life Science Real Estate" was AZN 149,032 thousand (2019: nil).

"PRISA LP" is a Delaware limited partnership investing on a pro rata basis alongside PRISA SA through one or more private REITS ("PRISA REIT") organized as a perpetual life, open-ended commingled fund to invest primarily in core real estate assets located in the United States through PRISA REIT. The Fund's commitment to "PRISA LP" is USD 200,000 thousand. As of 31 December 2020 the fair value of Fund's investment in "PRISA LP" was AZN 342,354 thousand (2019: nil).

The Fund has reached an agreement with Gaw Capital Partner's "GAW US Fund III" (project Rainbow) to make co-investment to hotel asset located in Hawaii. The Fund's equity portion in the co-investment is USD 14,000 thousand. As of 31 December 2020 the fair value of Fund's share in this co-investment was AZN 17,976 thousand (2019: nil).

"Walton Street Real Estate Fund IX" (WSREF IX) was raised by Walton Street Capital. WSREF IX will combine opportunistic and value-add strategies to a portfolio designed to generate attractive risk-adjusted returns. The Fund's commitment to WSREF IX is USD 100,000 thousand. As of 31 December 2020 the fund has not drawn capital from the Fund yet.

Equity securities. The carrying value of equity investments consists of investments in the following sectors at 31 December 2020 and 2019:

In thousands of Azerbaijani Manats	2020	2019
Telecommunication and information technologies	2,296,466	1,658,757
Consumer	1,871,960	1,579,207
Finance	1,796,870	2,008,941
Healthcare	1,040,085	1,014,436
Industrial	899,281	742,331
Materials	514,024	393,596
Utilities	383,117	277,865
Energy	271,036	361,260
Total equity securities	**9,072,839**	**8,036,393**

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 2020:

In thousands of Azerbaijani Manats	Agency/Supranational Bonds	Corporate Bonds	Sovereign Bonds	Money Market	Total
Neither past due nor impaired (at fair value)					
AAA	7,042,639	308,889	9,931,417	-	17,282,945
AA	3,689,756	75,712	370,211	91,790	4,227,469
A	1,539,183	4,567,920	1,232,078	-	7,339,181
BBB	5,117	3,004,782	1,649,780	-	4,659,679
BB	-	7,972,920	125,914	-	8,098,834
B	-	1,227,638	373,676	-	1,601,314
D	-	538	-	-	538
Total neither past due nor impaired	**12,276,695**	**17,158,399**	**13,683,076**	**91,790**	**43,209,960**
Total debt trading securities	**12,276,695**	**17,158,399**	**13,683,076**	**91,790**	**43,209,960**

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
Neither past due nor impaired (at fair value)					
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**

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	2020	2019
Opening balance at 1 January	**8,381,163**	**3,558,246**
Additions	49,328	3,628,327
Net fair value gain on gold bullions	2,059,788	1,194,590
31 dekabr tarixinə yekun qalıq	**10,490,279**	**8,381,163**

10. INVESTMENT PROPERTIES

Movement of investment properties:

In thousands of Azerbaijani Manats	2020	2019
Investment properties at fair value at 1 January	**2,517,219**	**2,584,684**
Additions	65,793	10,093
Disposals	(757,263)	(213,099)
Right-of-use asset	**355**	**78,245**
Fair value (losses)/gains	**(115,164)**	**64,971**
Effect of translation to presentation currency	**73,594**	**(7,675)**
Investment properties at fair value at 31 December	**1,784,534**	**2,517,219**

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 and "Kirarito Ginza" retail complex located in Tokyo. All properties are leased out on a commercial basis.

As at 31 December 2020 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 valuators who have advised on current market levels.

At 31 December 2020, investment property carried at AZN 960,190 thousand (2019: AZN 1,736,537 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	2020	2019
In thousands of Azerbaijani Manats	24,017	56,824
In thousands of Azerbaijani Manats	42,549	132,983
In thousands of Azerbaijani Manats	2,069	2,019
Total operating lease payments receivable at 31 December	**68,635**	**191,826**

Detailed disclosure on fair value change of investment properties:

Investment property	Fair value 2020	Change in fair value	Effect of translation to presentation currency	Additi-ons	Disposals	Right-of-use asset	Fair value 2019
"78 St James Street", London	378,601	(28,712)	12,805	64,713	-	-	329,795
"Gallery Actor", Moscow	69,143	(8,408)	(14,162)	-	-	355	91,358
"SCI 8 Place Vendome", Paris	376,600	(16,839)	33,796	114	-	-	359,529
"Pine Avenue Tower A", Seoul	-	(51,846)	(10,269)	-	(757,263)	-	819,378
"Kirarito Ginza" , Tokyo	960,190	(9,359)	51,424	966	-	-	917,159
	1,784,534	**(115,164)**	**73,594**	**65,793**	**(757,263)**	**355**	**2,517,219**

Investment property	Fair value 2019	Change in fair value	Effect of translation to presentation currency	Additi-ons	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**

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 2020, the Unit Trust has not contributed rental income due to the refurbishment of the office complex (2019: nil) and contributed AZN 32,787 thousand loss (2019: AZN 19,689 thousand loss) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value decrease of AZN 28,712 thousand (2019: AZN 16,041 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 2020, JSC Tverskaya 16 contributed AZN 6,971 thousand (2019: AZN 8,300 thousand) of rental income and AZN 4,126 thousand loss (2019: AZN 4,600 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value decrease of AZN 8,408 thousand (2019: increase AZN 1,139 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 2020, SCI 8 Place Vendome has contributed AZN 10,962 thousand (2019: AZN 10,503 thousand) of rental income and AZN 12,485 thousand loss (2019: 8,850 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value decrease of AZN 16,839 thousand (2019: AZN 4,361 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). The property was disposed of on 21 September 2020. Until the disposal date, "Pine Avenue Tower A" has contributed AZN 21,516 thousand (2019: AZN 24,337 thousand) of rental income and AZN 58,785 thousand loss (2019: AZN 71,930 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value decrease of AZN 51,846 thousand (2019: AZN 61,114 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 2020, "Kirarito Ginza" has contributed AZN 24,466 thousand (2019: AZN 25,196 thousand) of rental income and AZN 2,926 thousand profit (2019: AZN 18,927 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value decrease of AZN 9,359 thousand (2019: AZN 823 thousand decrease)).

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	2020	2019
Carrying amount at 1 January	**1,047,199**	**1,167,214**
Capital repayment from joint venture	(36,000)	(76,500)
Share of after tax results of joint venture	32,871	(22,056)
Dividends received from joint venture	(5,223)	(19,053)
Gain/(loss) from FX translation recognised in OCI	15,130	(2,406)
Carrying amount at 31 December	**1,053,977**	**1,047,199**

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 founders' 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 2020 (2019: nil). All strategic financial and operating decisions relating to the activity of the acquiree require the unanimous consent by both founders. 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 Capitals Property S.a.r.l 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 2020 (2019: nil). 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 2020, 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	% interest held	Country of incorporation
"Azerbaijan Rigs" LLC	113,993	904,843	(5,674)	(23,317)	90,730	428	(56,592)	34,566	90%	Azerbaijan
"Capitals Property S.a.r.l" LLC	59,896	1,024,864	(1,423)	(675,548)	38,141	2,034	(35,767)	4,408	40%	Luxembourg

At 31 December 2019, 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	84,127	939,116	(9,144)	(18,820)	97,872	255	(124,342)	(26,215)	90%	Azerbaijan
"Capitals Property S.a.r.l" LLC	52,655	952,421	(3,126)	(623,330)	37,338	1,230	(34,724)	3,844	40%	Luxembourg

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

Name	"Azerbaijan Rigs" LLC		"Capitals Property S.a.r.l" LLC	
	2020	2019	2020	2019
Opening net assets	**995,279**	**1,127,664**	**378,620**	**380,789**
Profit/(loss) for the period	34,566	(26,215)	4,408	3,844
Dividends paid	-	(21,170)	(13,057)	-
Decrease in charter capital	(40,000)	(85,000)	-	-
Translation to presentation currency	-	-	37,818	(6,013)
Closing net assets	989,845	995,279	407,789	378,620
Fund's share in %	90%	90%	40%	40%
Fund's share in amount	890,861	895,751	163,116	151,448
Carrying amount of investment	**890,861**	**895,751**	**163,116**	**151,448**

12. CAPITAL CONTRIBUTIONS

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

In thousands of Azerbaijani Manats	2020	2019
Contributions received from sales of oil and gas	6,587,262	14,614,709
Bonuses	767,777	766,351
Pipeline transit tariffs	20,362	18,938
Acreage fees	6,753	4,692
Total capital contributions	**7,382,154**	**15,404,690**

13. NON-CURRENT LIABILITIES

In thousands of Azerbaijani Manats	2020	2019
Term loan Godo Kaisha (GK001 - Tokyo, Japan)	515,327	487,066
Term loan MAPS 21 (Mirae Asset Securities)	-	441,000
Tenancy deposits	12,248	49,302
Deferred tax liabilities	12,050	15,894
Lease liabilities	80,054	77,792
Total non-current liabilities	**619,679**	**1,071,054**

Tenancy deposits comprise of prepayments made by tenants for Kirarito Ginza, the investment property in Tokyo with the amount of AZN 10,472 thousand (2019: AZN 20,307 thousand) and SCI 8 Place Vendome, the investment property in Paris with the amount of AZN 1,776 thousand (2019: AZN 2,204 thousand).

The term loan comprises of borrowing by Godo Kaisha GK001 (Kirarito Ginza), denominated in Japanese Yen. Bank borrowing mature by 09 September 2024 and bear coupon of 0.81% annually (2019: 0.81%). An investment property is pledged as collateral for the borrowing. Please refer to Note 10.
Borrowing by MAPS 21 (Pine Avenue Tower A), denominated in Korean Won was fully repaid in 2020.

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 borrowing 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% (2019: 0.81%). 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 2019	**935,981**
Foreign exchange adjustments	(7,915)
Liabilities from financing activities at 31 December 2019	**928,066**
Cash flows	(440,100)
Foreign exchange adjustments	26,552
Other non-cash movements	809
Liabilities from financing activities at 31 December 2020	**515,327**

14. INTEREST INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In thousands of Azerbaijani Manats	2020	2019
Government securities	254,035	124,380
Agency securities	115,319	260,072
Corporate securities	333,303	538,086
Total interest income	**702,657**	**922,538**

15. FOREIGN CURRENCY TRANSLATION DIFFERENCES

Net foreign currency translation differences comprise of:

In thousands of Azerbaijani Manats	2020	2019
Net unrealized gain/(loss) on foreign currency translation differences	1,332,403	496,576
Net realized loss on foreign currency translation differences	88,823	27,691
Total net gain/(loss) on foreign currency translation differences	**1,243,580**	**(524,267)**

16. NET FAIR VALUE GAIN 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	2020	2019
Unrealized gain on change in fair value adjustment	318,322	2,164,974
Realized gain on trading operations	635,597	80,317
Net gain on financial assets at fair value through profit or loss	**953,919**	**2,245,291**

17. OPERATING EXPENSES

Operating expenses are comprised of:

In thousands of Azerbaijani Manats	2020	2019
Operating expenses of subsidiaries	60,970	73,281
Wages, salaries and employee benefits	6,523	6,755
Depreciation and amortization	5,624	6,226
Short-term license fee	4,233	3,865
Asset management fee	3,098	2,850
Bank services	2,358	2,687
SSPF contributions	1,378	1,447
Communication expenses	55	61
Other operating expenses	3,221	6,265
Total operating expenses	**87,460**	**103,437**

18. TRANSFERS BY THE FUND

During 2020 transfers to the State Budget, as well as to the state institutions, state-owned entities and companies were made in accordance with:

- The Decree #906 of the President of the Republic of Azerbaijan dated 29 December 2019 on the Approval of the Budget of the State Oil Fund of the Republic of Azerbaijan for 2020.
- Decree # 1148 of the President of the Republic of Azerbaijan dated 31 August 2020 on making amendments to the Decree No. 906 of the President of the Republic of Azerbaijan dated 29 December 2019 on the Budget of the State Oil Fund of the Republic of Azerbaijan for 2020.

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.

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 2020 and 2019. Whereas Luxembourg and French subsidiaries are subject to income tax at a rate of 17% (2019: 17%) and 33.33% (2019: 33.33%), respectively. Japan subsidiary is subject to income tax of 34.59% (2019: 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 2020				31 December 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value Financial Assets								
Financial assets at fair value through profit or loss	**44,309,879**	**7,972,920**	**4,587,616**	**56,870,415**	**48,492,532**	**7,609,063**	**3,510,925**	**59,612,520**
- Agency/Supranational bonds	12,276,695	-	-	12,276,695	9,293,635	-	-	9,293,635
- Corporate bonds	9,185,479	7,972,920	-	17,158,399	17,591,710	7,609,063	-	25,200,773
- Sovereign bonds	13,683,076	-		13,683,076	12,429,189	-	-	12,429,189
- Private Equity Funds	-	-	1,348,519	1,348,519	-	-	902,260	902,260
- Real Estate Funds	-	-	3,239,097	3,239,097	-	-	2,608,665	2,608,665
- Equity securities	9,072,839	-	-	9,072,839	8,036,393	-	-	8,036,393
- Money Market	91,790	-	-	91,790	1,141,605	-	-	1,141,605
Non-financial Assets	**10,490,279**	**-**	**1,784,534**	**12,274,813**	**8,381,163**	**-**	**2,517,219**	**10,898,382**
- Investment properties	-	-	1,784,534	1,784,534	-	-	2,517,219	2,517,219
- Gold bullions	10,490,279	-	-	10,490,279	8,381,163	-	-	8,381,163
Total assets recurring fair value measurements	**54,800,158**	**7,972,920**	**6,372,150**	**69,145,228**	**56,873,695**	**7,609,063**	**6,028,144**	**70,510,902**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020 and 31 December 2019:

In thousands of Azerbaijani Manats	Fair value	Valuation technique	Inputs used
Assets at fair value financial assets			
2020 - Corporate bonds	7,972,920	DCF	Government bonds yield curve
2019 - Corporate bonds	7,609,063	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 2020:

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**						
Investment properties						
"78 St James Street", London	378,601	Residual appraisal approach	Net rental value	AZN 26,576 thousand	+/- 5%	22,275/ (23,295)
"Gallery Actor", Moscow	69,143	Discounted cash flows	Target rate of return	12%	+/- 1%	(2,450)/ 2,123
"SCI 8 Place Vendome", Paris	376,600	Income capitalisation method, Discounted cash flows, Direct comparison method	Market yield	3.5 - 4.5%	+/- 0.5%	(65,123)/ 34,568
"Kirarito Ginza", Tokyo	960,190	Cost method, income capitalisation method	Market yield	2.4%	+/- 0.1%	(39,785)/ 31,078
Total recurring fair value measurements at level 3	**1,784,534**					

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**						
Investment properties						
"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	Cost method, income capitalisation method	Market yield	2.4%	+/- 0.1%	(32,351)/ 35,432
Total recurring fair value measurements at level 3	**2,517,219**					

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 2020 is as follows:

In thousands of Azerbaijani Manats	Securities at FVTPL
Fair value at 1 January 2020	**3,510,925**
Loss recognised in profit or loss for the year	(64,945)
Gain recognised in other comprehensive income	258,350
Purchases	883,286
Fair value at 31 December 2020	**4,587,616**

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
Fair value at 1 January 2019	**2,253,461**
Gain 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**

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 2020				31 December 2019			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Assets **Other financial assets**								
- Other receivables	-	9,866	-	9,866	-	4,283	-	4,283
- Term deposits	-	2,352	-	2,352	-	7,577	-	7,577
Total Assets	**-**	**12,218**	**-**	**12,218**	**-**	**11,860**	**-**	**11,860**
Liabilities **Other borrowed funds**								
- Term loan	-	515,327	-	515,327	-	928,066	-	928,066
Other financial liabilities								
- Other liabilities	-	22,655	-	22,655	-	17,762	-	17,762
- Lease liabilities	-	80,054	-	80,054	-	77,792	-	77,792
Total Liabilities	**-**	**618,036**	**-**	**618,036**	**-**	**1,023,620**	**-**	**1,023,620**

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 2020:

In thousands of Azerbaijani Manats	FVTPL (mandatory)	AC	Total
ASSETS			
Cash and cash equivalents			**4,059,687**
- Money market funds	1,255,741	-	1,255,741
- Bank accounts	-	2,794,016	2,794,016
- Short-term deposits	-	9,930	9,930
FVTPL assets			**56,870,415**
- Agency/Supranational bonds	12,276,695	-	12,276,695
- Corporate bonds	17,158,399	-	17,158,399
- Sovereign bonds	13,683,076	-	13,683,076
- Money market	91,790	-	91,790
- Private Equity Funds	1,348,519	-	1,348,519
- Real Estate Funds	3,239,097	-	3,239,097
- Equity securities	9,072,839	-	9,072,839
Other financial assets			**9,867**
-Other	-	9,867	9,867
TOTAL FINANCIAL ASSETS	**58,126,156**	**2,813,813**	**60,939,969**

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**

As of 31 December 2020 and 31 December 2019, 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.

2020	AAA	AA	A	BBB	BB	B	D	Total
Cash and cash equivalents*	1,255,741	501	872,531	392,255	-	7,098	-	2,528,126
Financial assets at fair value through profit or loss**	17,282,945	4,227,468	7,339,181	4,659,678	8,098,834	1,601,316	538	43,209,960

* AZN 1,531,561 thousand (2019: 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 9,072,839 thousand (2019: AZN 8,036,393 thousand) and investments in Real Estate and Private Equity Funds in the amount of AZN 4,587,616 thousand (2019: AZN 3,510,925 thousand) 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 2020, the scores awarded for Real Estate and Private Equity funds are in the range of 8-9 and 7-8, respectively.

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

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 2020:

2020	AZN	USD	EUR	GBP	TRY	AUD	RUB	Other	Total
Financial assets									
Cash and cash equivalents	1,622	3,094,142	732,231	157,480	6,981	2,850	5,958	58,423	4,059,687
Financial Assets at Fair Value Through Profit or Loss	-	35,425,248	13,781,767	3,434,453	499,592	453,544	334,141	2,941,670	56,870,415
Other financial assets	-	-	7,449	317	-	-	1,519	582	9,867
Total financial assets	**1,622**	**38,519,390**	**14,521,447**	**3,592,250**	**506,573**	**456,394**	**341,618**	**3,000,675**	**60,939,969**
Financial liabilities									
Borrowings	-	-	-	-	-	-	-	(515,327)	(515,327)
Other financial liabilities	(1,510)		(4,662)	(7,067)	-	-	(1,401)	(8,015)	(22,655)
Lease liabilities	-	-	-	(72,666)	-	-	(7,388)	-	(80,054)
Total financial liabilities	**(1,510)**	**-**	**(4,662)**	**(79,733)**	**-**	**-**	**(8,789)**	**(523,342)**	**(618,036)**
Open position	**112**	**38,519,390**	**14,516,785**	**3,512,517**	**506,573**	**456,394**	**332,829**	**2,477,333**	**60,321,933**

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**

Currency risk sensitivity. The tables below indicate the currencies to which the Fund had significant exposure at 31 December 2020 and 2019 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.

2019	Impact on profit/ (loss) for the year		Impact on equity	Impact on profit/ (loss) for the year		Impact on equity
	31-Dec-20			31-Dec-19		
AZN/USD	+ 10%	3,851,939	3,851,939	+ 10%	3,189,182	3,189,182
	- 10%	(3,851,939)	(3,851,939)	- 10%	(3,189,182)	(3,189,182)
AZN/EUR	+ 10%	1,451,679	1,824,914	+ 10%	2,259,770	2,566,296
	- 10%	(1,451,679)	(1,824,914)	- 10%	(2,259,770)	(2,566,296)
AZN/GBP	+ 10%	351,252	382,920	+ 10%	341,024	373,815
	- 10%	(351,252)	(382,920)	- 10%	(341,024)	(373,815)
AZN/TRY	+ 10%	50,657	50,657	+ 10%	59,004	59,004
	- 10%	(50,657)	(50,657)	- 10%	(59,004)	(59,004)
AZN/AUD	+ 10%	45,639	45,639	+ 10%	40,985	40,985
	- 10%	(45,639)	(45,639)	- 10%	(40,985)	(40,985)
AZN/RUB	+ 10%	33,284	39,998	+ 10%	48,885	57,327
	- 10%	(33,284)	(39,998)	- 10%	(48,885)	(57,327)

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-20		31-Dec-19	
	10%	-10%	10%	-10%
Impact on profit/(loss) for the year	1,049,028	(1,049,028)	838,116	(355,825)
Impact on equity	1,049,028	(1,049,028)	838,116	(355,825)

Geographical concentration. The geographical concentration of the Fund's financial assets and liabilities at 31 December 2020 is set out below:

2020	Azerbaijan	Europe	America	Asia	Australia and Oceania	International organizations	Total
Financial assets							
Cash and cash equivalents	1,531,667	2,148,940	333,613	41,123	4,344	-	4,059,687
Financial Assets at Fair Value Through Profit or Loss	9,200,558	18,475,024	18,209,878	5,774,565	856,915	4,353,475	56,870,415
Other financial assets	-	9,285	-	582	-	-	9,867
Total financial assets	**10,732,225**	**20,633,249**	**18,543,491**	**5,816,270**	**861,259**	**4,353,475**	**60,939,969**
Financial liabilities							
Borrowings	-	-	-	(515,327)	-	-	(515,327)
Other financial liabilities	(1,510)	(13,110)	-	(8,035)	-	-	(22,655)
Lease liabilities	-	(80,054)	-	-	-	-	(80,054)
Total financial liabilities	**(1,510)**	**(93,164)**	**-**	**(523,362)**	**-**	**-**	**(618,036)**
Net position	**10,730,715**	**20,540,085**	**18,543,491**	**5,292,908**	**861,259**	**4,353,475**	**60,321,933**

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
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**
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)**
Open position	**9,045,518**	**23,872,004**	**18,394,066**	**4,891,355**	**1,501,217**	**3,487,046**	**61,191,206**

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 2020 and 2019.

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 2020 and 2019 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-20		31-Dec-19	
	Interest rate 1%	Interest rate -1%	Interest rate 1%	Interest rate -1%
Assets:				
Cash and cash equivalents	35	(35)	39	(39)
Financial assets at fair value through profit or loss	(654,161)	654,161	(612,085)	612,085
Net impact on profit/(loss) before tax	(654,126)	654,126	612,046)	612,046
Impact on equity	(654,126)	654,126	(612,046)	612,046

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 2020 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:

2020	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	-	9,930	-	-	-	4,049,757	4,059,687
Financial assets at fair value through profit or loss	1,167,565	2,363,982	9,931,936	23,903,179	5,843,298	13,660,455	56,870,415
Other financial assets	9,867	-	-	-	-	-	9,867
Total financial assets	**1,177,432**	**2,373,912**	**9,931,936**	**23,903,179**	**5,843,298**	**17,710,212**	**60,939,969**
Financial liabilities							
Borrowings	(350)	(700)	(3,149)	(529,561)	-		(533,760)
Lease liabilities	(319)	(913)	(2,212)	(11,891)	(291,495)	-	(306,830)
Other financial liabilities	(22,655)	-	-	-	-	-	(22,655)
Total financial liabilities	**(23,324)**	**(1,613)**	**(5,361)**	**(541,452)**	**(291,495)**	**-**	**(863,245)**
Liquidity gap	**1,154,108**	**2,372,299**	**9,926,575**	**23,361,727**	**5,551,803**	**17,710,212**	**60,076,724**

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**

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.

Adı	31-Dec-20		31-Dec-19	
	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	568,704	568,704	596,125	(596,125)
Impact on net assets/ equity	568,704	(568,704)	596,125	(596,125)

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 2020 the total value of the assets were AZN 1,420 million (31 December 2019: AZN 2,208 million) 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	**2020**	**6,438,727**						
	2019	14,049,684						
Azerbaijan Gas Supply Company	**2020**	**119,872**						
	2019	471,371						
Operating and Contractor Companies	**2020**	**823,555**						
	2019	883,635						
The State Budget	**2020**			**12,200,000**				
	2019			11,364,300				
Ministry of Finance of the Republic of Azerbaijan	**2020**							**1,420,128**
	2019							2,207,798
State Committee for Affairs of Refugees and Internally Displaced Persons and Social Development Fund of the Internally Displaced Persons of the Republic of Azerbaijan	**2020**			**199,998**				
	2019			200,000				
Central Bank of the Republic of Azerbaijan	**2020**						**1,531,561**	
	2019						972	
Ministry of Education of the Republic of Azerbaijan	**2020**			**4,103**				
	2019			-				
International Bank of Azerbaijan	**2020**				**1,227,638**	**44,801**	**116**	
	2019				1,436,610	55,614	71	
Southern Gas Corridor CJSC	**2020**				**4,887,294**	**106,338**		
	2019				4,793,334	169,915		
Mercury Investments and Holdings Ltd.	**2020**				1,488,853	**42,943**		
	2019				1,222,709	18,842		
Azerbaijan (ACG) Ltd	**2020**				230,736	**6,419**		
	2019				289,931	12,601		
SOCAR (Absheron)	**2020**				897,984	**41,656**		
	2019				875,334	48,502		
SOCAR (Karabakh)	**2020**				468,053	**19,228**		
	2019				427,755	3,382		
"Azerbaijan Rigs" LLC	**2020**		**890,861**					
	2019		895,751					
"Capitals Property S.a.r.l" LLC	**2020**		**163,116**					
	2019		151,448					

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	2020	2019
Short-term benefits:		
-Salary expense	306	282
-State Social Protection Fund expense	67	62
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 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 2021" dated 30 December 2020, the Fund's budgeted contributions and distributions for the year of 2021 are estimated at AZN 8,001,169 thousand and AZN 12,249,436 thousand, respectively.

The following main types of distributions for 2021 are budgeted:

- Upper bound of transfer to the State Budget of the Republic of Azerbaijan – AZN 12,200,000 thousand;
- Financing of "The State Program for increasing international competitiveness of the higher education system of the Republic of Azerbaijan in 2019-2023" – AZN 20,534 thousand;
- Administrative expenses of the State Oil Fund of the Republic of Azerbaijan – AZN 28,902 thousand.

Covid-19 developments. Government of Republic of Azerbaijan is in process of continuous monitoring of the current sanitary and epidemiological situation in the world and Azerbaijan, associated with a COVID-19, and it was decided to extend the period of the special quarantine regime in the country until 1 June 2021.

At the same time, given a certain stability in the dynamics of the spread of the virus in Azerbaijan, the government eased some of the restrictions introduced under the special quarantine regime from 18 January 2021.

To the date of these consolidated financial statements were ready for the issue, the Fund did not experience significant effect of the COVID-19 developments occurred after the reporting period; the operations of the Fund were not disrupted and the management of the Fund does not expect any impact of the circumstance described above on their consolidated financial statements.

APPENDIX

Sovereign wealth funds
'santiago principles' Generally accepted principles and pratices self-assessment

Aprel, 2021

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).	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.
Gapp 1.1. Subprinciple The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.	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.
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.	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/wfbtvgrpz.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/sswctj9vko.pdf https://www.oilfund.az/storage/images/oigo5rbbvn.pdf https://oilfund.az/storage/uploads/f0waqk7ikt.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/wfbtvgrpz.pdf https://oilfund.az/storage/uploads/emcjtf8wiz.pdf
B. Institutional Framework and 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/emcjtf8wiz.pdf
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

Narration of Principles / Sub-Principles	Responses
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/en/fund/management/behavior-rules
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

Narration of Principles / Sub-Principles	Responses
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 it's 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
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** İThe 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", Fund'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

Narration of Principles / Sub-Principles	Responses
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 221. 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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