

**“Azerbaijan Caspian Shipping”
Closed Joint Stock Company**

Consolidated financial statements
with independent auditor’s report

For the year ended 31 December 2016

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Independent auditor's report

To management of Azerbaijan Caspian Shipping CJSC

Opinion

We have audited the consolidated financial statements of Azerbaijan Caspian Shipping CJSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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



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

Ernst & Young Holdings (CIS) B.V.

26 April 2017

Baku, Azerbaijan

“Azerbaijan Caspian Shipping” CJSC
Consolidated statement of financial position
As at 31 December 2016

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

	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Vessels, property, plant and equipment	12	589,163	586,134
Intangible assets		1,794	1,160
Long-term prepayments	8	61,576	–
Deferred tax assets	19	16,302	34,654
Total non-current assets		668,835	621,948
Current assets			
Inventories	9	63,970	59,561
Trade and other receivables	6	143,201	113,937
Taxes receivable	7	15,306	3,826
Short-term prepayments	8	6,121	3,800
Cash and cash equivalents	5	4,205	769
Restricted cash	5	28	2
Total current assets		232,831	181,895
Total assets		901,666	803,843
Equity			
Share capital	14	440,051	383,421
Additional paid-in capital	14	–	37,877
Retained earnings		367,358	272,072
Total equity		807,409	693,370
Liabilities			
Non-current liabilities			
Long-term loans	11	29,643	33,877
Deferred tax liabilities	19	2,636	3,819
Non-current provisions	13	2,489	2,621
Total non-current liabilities		34,768	40,317
Current liabilities			
Current portion of long-term loans	11	4,864	6,265
Trade and other payables	10	37,558	50,051
Current provisions	13	16,276	13,064
Taxes payable		791	776
Total current liabilities		59,489	70,156
Total liabilities		94,257	110,473
Total equity and liabilities		901,666	803,843

Signed and authorized for release on behalf of the Group on 26 April 2017.

Mr. Rauf Valiyev
Chairman




Mr. Jalal Farajli
Deputy Chairman on Economic Issues



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

“Azerbaijan Caspian Shipping” CJSC
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2016
(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)

	Notes	2016	2015
Revenue	15	454,925	331,642
Cost of sales	16	(266,762)	(224,459)
Gross profit		188,163	107,183
Social expenses	16	(4,031)	(2,975)
General and administrative expenses	16	(60,945)	(36,471)
Other operating income	20	45,480	30,192
Other operating expenses	17	(18,288)	(9,307)
Loss on disposal of vessels, property, plant and equipment		(1,245)	(575)
Foreign exchange gain		886	4,864
Operating profit		150,020	92,911
Finance costs	21	(1,596)	(2,145)
Profit before income tax		148,424	90,766
Income tax expense	19	(40,158)	(21,769)
Profit for the year		108,266	68,997
Other comprehensive income for the year		-	-
Total comprehensive income for the year		108,266	68,997

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

“Azerbaijan Caspian Shipping” CJSC
Consolidated statement of changes in equity
For the year ended 31 December 2016

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

	Share capital	Additional paid-in capital	Receivable from shareholder	Retained earnings	Total
Balance at 1 January 2015	383,421	32,155	(4,312)	203,075	614,339
Total comprehensive income for the year	-	-	-	68,997	68,997
Receivable from shareholder	-	-	4,312	-	4,312
Increase additional paid-in capital (Note 14)	-	5,722	-	-	5,722
Increase in share capital (Note 14)	-	-	-	-	-
Balance at 31 December 2015	383,421	37,877	-	272,072	693,370
Total comprehensive income for the year	-	-	-	108,266	108,266
Increase in additional paid-in capital (Note 14)	-	5,773	-	-	5,773
Increase in share capital (Note 14)	56,630	(43,650)	-	(12,980)	-
Balance at 31 December 2016	440,051	-	-	367,358	807,409

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

“Azerbaijan Caspian Shipping” CJSC
Consolidated statement of cash flows
For the year ended 31 December 2016

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

	Notes	2016	2015
Cash flows from operating activities			
Profit before income tax		148,424	90,766
Adjustments for:			
Depreciation of vessels, property, plant and equipment	12, 16	87,812	71,090
Amortization of intangible assets		262	640
Impairment of trade and other receivables	6	1,585	8,520
Net foreign exchange differences		(1,491)	(1,532)
Loss on disposal of vessels, property, plant and equipment		1,245	575
Finance costs	21	1,596	2,145
Movements in provisions	13, 20	(9,407)	(2,265)
Gain on release of payables	20	-	(5,955)
Operating cash flows before working capital changes		230,026	163,984
Increase in trade and other receivables	6	(21,193)	(27,905)
(Increase)/decrease in inventories	9	(4,366)	8,700
(Increase)/decrease in prepayments	8	(2,321)	768
(Increase)/decrease in taxes receivable	7	(11,481)	22,005
(Increase)/decrease in restricted cash	5	(26)	14
Decrease in trade and other payables	10	(13,467)	(85,794)
Increase/(decrease) in provision		2,835	(4,048)
Decrease in taxes payable		(208)	(2,662)
Cash generated from operations		179,799	75,062
Income taxes paid		(22,431)	(1,000)
Interest paid		(1,596)	(1,895)
Net cash flows from operating activities		155,772	72,167
Cash flows from investing activities			
Purchase of vessels, property, plant and equipment	12	(153,070)	(58,760)
Purchase of intangible assets		(895)	(103)
Net cash flows used in investing activities		(153,965)	(58,863)
Cash flows from financing activities			
Proceeds from short-term loans	11	17,200	3,300
Repayment of long-term loans	11	(5,635)	(6,035)
Repayment of short-term loans	11	(17,200)	(22,369)
Increase in share capital and additional paid-in capital	14	5,773	5,722
Net cash flows from / (used in) financing activities		138	(19,382)
Net increase / (decrease) in cash and cash equivalents		1,945	(6,078)
Net foreign exchange difference		1,491	727
Cash and cash equivalents at the beginning of the year	5	769	6,120
Cash and cash equivalents at the end of the year		4,205	769

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

“Azerbaijan Caspian Shipping” CJSC
Notes to the consolidated financial statements

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

1. The Group and its operations

“Azerbaijan Caspian Shipping” Closed Joint Stock Company (the “Company”) was established by merging the Azerbaijan State Caspian Sea Shipping Company (“ASCSC”) and the Caspian Sea Oil Fleet (“CSOF”) of the State Oil Company of Azerbaijan Republic (“SOCAR”), in accordance with the Decree No. 6 of the President of Azerbaijan Republic, dated 22 October 2013 on *Establishment of “Azerbaijan Caspian Shipping” Closed Joint-Stock Company* and Decree No. 213, dated 10 January 2014, on *Organization of Activity of “Azerbaijan Caspian Shipping” Closed Joint-Stock Company*. Two companies were merged in order to continue fundamental structural reforms in the economy, increase domestic and international transportation in maritime industry, enhance competitiveness and transit potential of Azerbaijan and get synergies from centralized management of the state owned shipping companies.

The Group comprises the offshore support and merchant fleets, two shipyards and production support and social development entities with near to 8,900 of full-time employees.

The ultimate controlling party of the Group as at 31 December 2016 and 2015 is the Government of the Republic of Azerbaijan (the “Government”).

The registered address of the Group is M.A. Rasulzade str., 5, Baku, Azerbaijan.

2. Basis of preparation and significant accounting policies

Basis of preparation. The consolidated financial statements of the Company and its subsidiaries (collectively referred as the “Group”) have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented. All amounts in these consolidated financial statements are presented in thousands Azerbaijani Manat (“AZN”), unless otherwise stated.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, certain office properties (classified as property, plant and equipment), derivative financial instruments, available-for-sale financial assets, contingent consideration and non-cash distribution liability that have been measured at fair value. The consolidated financial statements provide comparative information in respect of the previous period.

Basis for consolidation. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016.

Subsidiaries are all entities over which the Group has control, being the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

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

Basis for consolidation (continued). A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Current versus non-current classification. The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- ▶ expected to be realised or intended to be sold or consumed in normal operating cycle;
- ▶ held primarily for the purpose of trading;
- ▶ expected to be realised within twelve months after the reporting period; or
- ▶ cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ▶ it is expected to be settled in normal operating cycle;
- ▶ it is held primarily for the purpose of trading;
- ▶ it is due to be settled within twelve months after the reporting period; or
- ▶ there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Business combinations. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Business combinations with entities under common control

The Group applies acquisition method of accounting for business combinations with entities under the common control.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

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

Foreign currency translation. The functional currency of the Company and its subsidiaries is Azerbaijan Manat as the majority of the Group’s revenues, costs, inventory purchased, and trade liabilities are either priced, incurred, payable or otherwise measured in Azerbaijan Manat.

The operations in the Group entities of which currency differ from the functional currency of the Group and not already measured in the Group’s functional currency are translated by following the below steps:

- ▶ monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency at the closing rate at the date of that statement of financial position;
- ▶ income and expenses for each statement of profit or loss and other comprehensive income 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).

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group’s entities are recognized in the consolidated statement of profit or loss or other comprehensive income.

At 31 December 2016 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7707, EUR 1 = AZN 1.8644, RUB 1 = AZN 0.0293 (31 December 2015: USD 1 = AZN 1.5594, EUR 1 = AZN 1.7046, RUB 1 = AZN 0.0216).

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, or amortized cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ in the principal market for the asset or liability; or
- ▶ in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

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 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 write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense, 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 related statement of financial position items.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets. The Group classifies its financial assets in the following measurement categories: a) financial assets at fair value through profit or loss; b) loans and receivables; c) financial assets held-to-maturity and d) available-for-sale financial assets. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The subsequent measurement of financial assets depends on their classification, as follows:

- (a) *Financial assets at fair value through profit or loss.* Financial assets at fair value through profit or loss are financial assets held for trading (a financial asset is classified in this category if acquired principally for the purpose of selling in the short term) and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss. Assets in this category are classified as current assets;

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

Financial assets (continued)

- (b) *Loans and receivables.* This category is the only relevant to the Group as of 31 December 2016. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position;
- (c) *Held-to-maturity financial assets.* This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. Investment securities held-to-maturity are carried at amortised cost;
- (d) *Available-for-sale financial assets.* Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss statement are initially recognized at fair value, and transaction costs are expensed in the statement of profit or loss and other comprehensive income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest rate method.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income – is removed from equity and recognized in the profit or loss. Impairment losses recognized in the statement of profit or loss and other comprehensive income on equity instruments are not reversed through the profit or loss.

Financial liabilities. The Group classifies its financial liabilities into the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. Other financial liabilities are carried at amortised cost.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained 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.

Derecognition of financial liabilities. The Group derecognises financial liability when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts, together with any costs or fees incurred are recognized in profit or loss.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

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

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest rate method. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognised in profit or loss. The primary factors that the Group considers when determining whether a receivable is impaired are its overdue status and realisability or related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- ▶ the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- ▶ the counterparty considers bankruptcy or a financial reorganisation;
- ▶ there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- ▶ the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Trade and other receivables are derecognised upon cash receipts from customers and borrowers or other similar settlements.

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.

Restricted cash. Restricted cash is presented separately from cash and cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of cash flow statement.

Trade payables. Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Loans. All loans are initially recognised at fair value of the proceeds received net of issue costs associated with the loan. Loans are carried at amortised cost using the effective interest rate method.

Interest costs on loans to finance the construction of vessels, property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Vessels, property, plant and equipment. Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

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

Vessels, property, plant and equipment (continued). Significant renovation and overhaul expenses over vessels arising at a later date are included in each asset’s book value. They can be recognised as a separate asset only if it is likely that the future economic benefits associated with the item will be beneficial to the Group and if the acquisition cost of the asset can be reliably determined. Ordinary repair and maintenance expenses are recognised as expenses for the reporting period during which they were incurred.

Vessels are depreciated over their estimated useful lives. The estimated useful lives and the residual values of assets are revised at each end of the reporting period and, when necessary, adjusted to reflect changes that have taken place in the expected future economic benefits.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation. Vessels, property, plant and equipment related to shipping industry are depreciated using a straight line depreciation method. Land is not depreciated. Assets under construction are not depreciated.

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

Buildings and constructions	15 to 30 years
Machinery and equipment	3 to 25 years
Vessels and port facilities	3 to 30 years

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

The residual value of an asset is the estimated amount that the Group would currently 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 residual value of an asset is nil if the Group expects to use the asset until the end of its physical life unless scrap value is significant. The assets’ residual values are reviewed, and adjusted if appropriate, at each reporting date.

Leases. The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee. A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

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

Leases (continued). A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor. Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Intangible assets. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects.

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Inventories. Inventories are stated at the lower of cost and net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

Cost is assigned by the weighted average method. Cost comprises direct purchase costs of materials for vessels repair and maintenance and cost of production (based on normal operating capacity).

Distribution to the Government. Distribution to the Government represent cash distributions or financing which the Group may be required to make to the state budget, various government agencies and projects administered by the Government based on the particular decisions of the Government. Such distributions are recorded as a reduction of equity. Distributions in the form of transfers of non-monetary assets are recognised at the carrying value of transferred assets.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

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

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

Value-added tax. The tax authorities permit the settlement of sales and purchases value-added tax (“VAT”) on a net basis.

VAT payable. VAT payable represents VAT related to sales net of VAT on purchases which have been settled at the reporting date. VAT related to sales is payable to tax authorities either upon receipt of payment, if payment is received prior to or within 30 days from the date of sale, or at recognition of sales to customers, if payment is received after 30 days from the date of sale. VAT related to sales which have not been settled at the statement of financial position date is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

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

Revenue recognition. The Group's revenue is mainly generated through sales of offshore services and services which are port operations and transportation of cargo and passengers. Revenue is recognised as the services are rendered and to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue from port services is deferred relating to the uncompleted part of these services on each reporting date. Revenue is measured at the fair value of the consideration received or receivable adjusted according to indirect taxes, revenue adjustments and exchange rate differences. Revenue from time chartered vessels is recognised based on chartered days.

Borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arms-length basis.

Corporate income taxes. Corporate income taxes have been provided for in the consolidated financial statements in accordance with the applicable legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised on the profit or loss unless it relates to transactions that are 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. Taxes, other than income, are recorded within operating expenses.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

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

Employee benefits. Wages, salaries, contributions to the Social Protection Fund of the Republic of Azerbaijan, paid annual leave and sick leave, bonuses, and non-monetary benefits (e.g. health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

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

3. Critical accounting estimates and judgements

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

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

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

Deferred tax. Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for: all deductible temporary differences: the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. The carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

3. Critical accounting estimates and judgements (continued)

Deferred tax (continued). Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Impairment of non-financial assets. Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

As of 31 December 2016 no trigger exists that could result in impairment loss on vessels, property, plant and equipment.

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

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

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

4. New standards and amendments issued, but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 14 Regulatory Deferral Accounts. IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests. The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements. The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

Annual improvements 2012-2014 cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

4. New standards and amendments issued, but not yet effective (continued)

Annual improvements 2012-2014 cycle (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 34 Interim Financial Reporting. The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative. The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception. The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

“Azerbaijan Caspian Shipping” CJSC
Notes to the consolidated financial statements (continued)
(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)

4. New standards and amendments issued, but not yet effective (continued)

Annual improvements 2012-2014 cycle (continued)

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

5. Cash and cash equivalents and restricted cash

Cash and cash equivalents and restricted cash comprised the following as at:

	31 December 2016	31 December 2015
USD denominated bank balances	3,171	416
AZN denominated bank balances	785	348
EUR denominated bank balances	226	5
Cash on hand	23	–
VAT deposit account, AZN	28	2
Total cash and cash equivalents and restricted cash	4,233	771

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

6. Trade and other receivables

Trade and other receivables comprised the following as at:

	31 December 2016	31 December 2015
Trade receivables	144,172	122,125
Less: impairment loss provision	(1,585)	(8,520)
Total trade receivables	142,587	113,605
Other short-term receivables	614	332
Total trade and other receivables	143,201	113,937

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

At 31 December 2015	(8,520)
Receivables written off during the year as uncollectable, net of recovery	1,570
Unused amounts reversed	6,950
Charge for the year	(1,585)
At 31 December 2016	(1,585)

Trade and other receivables in amount of AZN 51,134 (31 December 2015: AZN 53,252) are denominated in foreign currencies, mainly in USD and EUR.

“Azerbaijan Caspian Shipping” CJSC**Notes to the consolidated financial statements (continued)***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***6. Trade and other receivables (continued)**

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

	Total	Neither past due nor impaired			Past due but not impaired	Individually impaired
		<30 days	30-60 days	61-90 days		
31 December 2015	122,457	28,410	24,812	23,007	37,708	8,520
31 December 2016	144,786	37,555	28,290	28,958	48,398	1,585

7. Taxes receivable

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

Taxes receivable comprised the followings as at:

	31 December 2016	31 December 2015
Receivable from state budget	11,958	–
VAT recoverable	3,348	3,826
Total taxes receivable	15,306	3,826

Receivable from state budget is related to prepayments made for taxes throughout the year. VAT recoverable amount related to purchases which have not been settled at the end of the year, and thus not claimed in tax declarations and prepayment on construction works which can be claimed only after the vendor performs the associated services.

8. Prepayments

Prepayments comprised the following as at:

	31 December 2016	31 December 2015
Short-term prepayments for trade and services	6,121	3,800
Long-term prepayments for purchase of vessels	61,576	–
Total prepayments	67,697	3,800

Prepayments as at 31 December 2016 and 31 December 2015 are primarily represented by prepayments made to suppliers for construction of vessels, raw materials, parts and equipment and repair and maintenance services for vessels.

“Azerbaijan Caspian Shipping” CJSC**Notes to the consolidated financial statements (continued)***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***9. Inventories**

Inventories comprised the followings as at:

	31 December 2016	31 December 2015
Raw materials and spare parts	59,360	54,193
Fuel	4,557	5,307
Other	53	61
Total inventories	63,970	59,561

10. Trade and other payables

Trade and other payables as at 31 December 2016 and 31 December 2015 represent amounts due to suppliers for repair and maintenance services for vessels and purchases of fuel for vessels, raw materials and spare parts.

	31 December 2016	31 December 2015
Trade payables	29,627	44,311
Other payables	-	4
Total financial payables	29,627	44,315
Advances received from customers	1,612	579
Payable to employees	6,319	5,157
Total trade and other payables	37,558	50,051

Financial payables in amount of AZN 8,810 (31 December 2015: AZN 3,139) are denominated in foreign currencies, mainly in USD and EUR.

11. Loans

As at 31 December 2016 and 31 December 2015, loans of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Balance as at 31 December 2016		Balance as at 31 December 2015	
			Non-current portion	Current portion	Non-current portion	Current portion
Azerbaijani Manat 13 million	4.00%	September 2017	-	-	-	1,444
Azerbaijani Manat 42 million	3.65%	August 2024	29,643	4,864	33,877	4,821
Total loans			29,643	4,864	33,877	6,265

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

12. Vessels, property, plant and equipment

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

	Buildings and constructions	Machinery and equipment	Vessels and port facilities	Vehicles, furniture and other	Construction in progress	Total
Cost						
At 1 January 2015	93,351	17,276	923,784	16,843	24,266	1,075,520
Additions	963	1,966	47,009	1,643	28,067	79,648
Disposals	(302)	(303)	(27)	(647)	–	(1,279)
Transfers	4,406	691	–	–	(5,097)	–
At 31 December 2015	98,418	19,630	970,766	17,839	47,236	1,153,889
Additions	144	1,745	72,914	3,841	13,442	92,086
Disposals	(1,433)	(80)	(355)	(464)	–	(2,332)
Transfers	–	–	26,623	–	(26,623)	–
At 31 December 2016	97,129	21,295	1,069,948	21,216	34,055	1,243,643
Depreciation and impairment						
At 1 January 2015	(5,110)	(10,108)	(463,979)	(11,181)	(6,991)	(497,369)
Depreciation charge for the year	(4,517)	(1,600)	(63,033)	(1,940)	–	(71,090)
Disposals	80	231	19	374	–	704
At 31 December 2015	(9,547)	(11,477)	(526,993)	(12,747)	(6,991)	(567,755)
Depreciation charge for the year	(4,328)	(1,766)	(79,659)	(2,059)	–	(87,812)
Disposals	272	77	280	458	–	1,087
At 31 December 2016	(13,603)	(13,166)	(606,372)	(14,348)	(6,991)	(654,480)
Net book value						
At 1 January 2015	88,241	7,168	459,805	5,662	17,275	578,151
At 31 December 2015	88,871	8,153	443,773	5,092	40,245	586,134
At 31 December 2016	83,526	8,129	463,576	6,868	27,064	589,163

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

12. Vessels, property, plant and equipment (continued)

In 2014, the Group engaged an independent appraiser to determine the fair value of vessels, property, plant and equipment balance transferred from ASCSC as of 1 February 2014. Fair value of vessels, property, plant and equipment was determined with the reference to income approach.

13. Provisions

	Environ- mental obligations (Note 23)	Disability payments	Unused vacation	Provision for potential tax accruals	Total
Carrying amount at 1 January 2015	(6,598)	(3,832)	(6,537)	(3,065)	(20,032)
Utilization	–	794	3,254		4,048
Charge	–	–	–	604	604
Unwinding of the present value discount (Note 21)	–	(305)	–	–	(305)
Carrying amount at 31 December 2015	(6,598)	(3,343)	(3,283)	(2,461)	(15,685)
Change in estimate, except for change in discount rate	(1,225)	–	–	–	(1,225)
Utilization	–	1,146	17,713	–	18,859
Disposals	–	–	–	2,461	2,461
Charge	–	(1,146)	(22,029)	–	(23,175)
Carrying amount at 31 December 2016	(7,823)	(3,343)	(7,599)	–	(18,765)
At 31 December 2015	(6,598)	(3,343)	(3,283)	(2,461)	(15,685)
Current	(6,598)	(722)	(3,283)	(2,461)	(13,064)
Non-current	–	(2,621)	–	–	(2,621)
At 31 December 2016	(7,823)	(3,343)	(7,599)	–	(18,765)
Current	(7,823)	(854)	(7,599)	–	(16,276)
Non-current	–	(2,489)	–	–	(2,489)

Provision for disability payments. The Group has an obligation to compensate its employees for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The Group calculated the present value of the injury payments to employees using a discount rate of 8.77% and 7.95% as of 31 December 2016 and 31 December 2015, respectively. For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively.

Provision for potential tax accruals. In accordance with local tax legislation the Group should accrue VAT for the residual value of disposed vessels, property, plant and equipment. The Group disposed 16 vessels in 2014 with total carrying value of AZN 17,028. The Group accrued VAT on disposal of 12 vessels (2015: 4 vessels) out of 16 in amount of AZN 2,461 in 2016 (2015: AZN 604).

14. Share capital and additional paid-in capital

Share capital. Parent company of the Group, “Azerbaijan Caspian Shipping” CJSC, has a legal status of a state enterprise. During 2016 the Group’s share capital increased to AZN 440,051 at 31 December 2016 from AZN 383,421 at 31 December 2015. This increase occurred by the transfer of additional paid-in capital in the total amount of AZN 43,650 and part of retained earnings in the amount of AZN 12,980 to the share capital of the Group.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

14. Share capital and additional paid-in capital (continued)

Share capital (continued). The Group includes five separate legal entities each possessing their own share capital. As at 31 December 2016 the Company had authorized and issued 440,050,998 shares at par 1 Azerbaijani Manat to the Government of the Republic of Azerbaijan, which is the sole and ultimate shareholder of the Group. The Company has ultimate control and 100% interest in all of its subsidiaries.

Additional paid-in capital. In 2016 the Group's additional paid-in capital increased by AZN 5,773 (2015: AZN 5,722) of which full amount was contributed as cash.

15. Analysis of revenue by categories

The Group's main services offered are freight and passenger transportation and offshore support services. Revenue generated by business segments are:

	2016	2015
Offshore support services	285,429	232,610
Freight and passenger transportation	160,096	93,993
Other revenue	9,400	5,039
Total revenue	454,925	331,642

16. Analysis of expenses by nature

For the year ended 31 December 2016 and 31 December 2015 cost of sales, social, general and administrative expenses comprised the following:

	2016	2015
Wages, salaries and social security costs	101,569	80,299
Depreciation of vessels, property, plant and equipment	87,812	71,090
Raw materials and consumables used	42,939	43,725
Repairs and maintenance expenses	32,723	13,668
Port charges	14,970	10,586
Food expenses	10,764	8,802
Taxes other than on income	9,296	7,553
Business trip expenses	9,335	4,607
Insurance expenses	4,012	2,757
Utilities expense	2,973	2,556
Vessels registration costs	2,164	1,451
Agency and brokerage costs	2,071	905
Impairment provision for trade receivables	1,585	8,520
Written off trade receivables	1,154	830
Amortisation of intangible assets	262	640
Other	8,109	5,916
Total cost of sales, social, general and administrative	331,738	263,905

17. Other operating expenses

Other operating expenses are mainly comprised of reimbursable costs, such as fuel and port charges in amount of AZN 8,472 (2015: AZN 1,057) incurred by the Group for chartered vessels on behalf of customers, which reclaimed thereafter.

“Azerbaijan Caspian Shipping” CJSC**Notes to the consolidated financial statements (continued)***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***18. Balances and transactions with related parties**

Key management compensation. Key management of the Group includes the Chairman of the Group and its five Deputy Chairman. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of the Group in accordance with the approved payroll matrix. During 2016 compensation of key management personnel totalled to AZN 249 (2015: AZN 136).

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

At 31 December 2016 and 31 December 2015, the outstanding balances with related parties were as follows:

	Government and entities under govern- ment control 31 December 2016	Government and entities under govern- ment control 31 December 2015
Trade and other receivables	117,626	84,765
Bad debt provision	(270)	(5,442)
Prepayments	26,290	251
Cash and cash equivalents and restricted cash	3,310	770
Long-term loans	(29,643)	(33,877)
Current portion of long-term loans	(4,864)	(6,265)
Trade and other payables	(15,978)	(34,396)
Taxes payable	(791)	(776)

The transactions with related parties for the year ended 31 December 2016 and 31 December 2015 were as follows:

	Government and entities under govern- ment control 31 December 2016	Government and entities under govern- ment control 31 December 2015
Freight and passenger transportation services	44,407	45,756
Offshore support services	185,090	175,568
Other income	13,807	14,065
Property tax	(5,155)	(5,527)
Other taxes	(1,877)	(593)
Net VAT on free transferred fixed assets	(1,479)	(739)
Tax fines and claims	(1,044)	(8)
Repairs and maintenance expenses	(566)	(316)
Utilities expense	(1,009)	(2,185)
Bad debts written-off	(647)	(777)
Bad debts provision	(270)	(5,442)
Port expenses	(2,798)	(1,139)
Bank charges	(1,047)	(734)
Finance cost	(1,521)	(1,734)
Other expenses	(4,142)	(1,743)

Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided for any related party receivables or payables.

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Notes to the consolidated financial statements (continued)

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

19. Income taxes

Income tax expense comprises the following:

	2016	2015
Current income tax expense	(22,989)	(3,662)
Deferred tax charge	(17,169)	(18,107)
Income tax expense for the year ended 31 December	(40,158)	(21,769)

The reconciliation between the expected and the actual taxation charge is provided below:

	2016	2015
Profit before tax	148,424	90,766
Theoretical tax charge at statutory rate of 20 per cent	(29,685)	(18,153)
Tax effect of non-deductible expenses	(4,917)	(3,364)
Impairment of construction in progress, non-deductible for tax purposes	(5,276)	-
Income recognised for tax purposes only	(710)	-
Other	430	(252)
Income tax expense for the year ended 31 December	(40,158)	(21,769)

Non-deductible expenses are mainly comprised of the social and employee-related expenses as well as the depreciation expenses of non-revenue generating assets.

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

	31 December 2014	Origination and reverse of tem- porary differen- ces in the con- solidated state- ment of profit or loss and other compre- hensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences			
Vessels, property, plant and equipment	45,468	(16,604)	28,864
Trade and other receivables, net	879	1,507	2,386
Inventories	570	(168)	402
Trade payables and accrued liabilities	192	165	357
Non-current and current provisions	3,393	(748)	2,645
Carried forward losses	2,497	(2,497)	-
Deferred tax assets	52,999	(18,345)	34,654

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Notes to the consolidated financial statements (continued)

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

19. Income taxes (continued)

	31 December 2014	Origination and reverse of tem- porary differen- ces in the con- solidated state- ment of profit or loss and other compre- hensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences			
Vessels, property, plant and equipment	(4,039)	587	(3,452)
Trade and other receivables, net	-	(34)	(34)
Trade payables and accrued liabilities	(18)	(315)	(333)
Deferred tax liabilities	(4,057)	238	(3,819)

	31 December 2015	Origination and reverse of tem- porary differen- ces in the con- solidated state- ment of profit or loss and other compre- hensive income	31 December 2016
Tax effect of deductible/(taxable) temporary differences			
Vessels, property, plant and equipment	28,864	(18,480)	10,384
Trade and other receivables, net	2,386	(1,032)	1,354
Inventories	402	39	441
Trade payables and accrued liabilities	357	13	370
Non-current and current provisions	2,645	1,108	3,753
Deferred tax assets	34,654	(18,352)	16,302

	31 December 2015	Origination and reverse of tem- porary differen- ces in the con- solidated state- ment of profit or loss and other compre- hensive income	31 December 2016
Tax effect of deductible/(taxable) temporary differences			
Vessels, property, plant and equipment	(3,452)	1,326	(2,126)
Trade and other receivables, net	(34)	(74)	(108)
Trade payables and accrued liabilities	(333)	(69)	(402)
Deferred tax liabilities	(3,819)	1,183	(2,636)

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

20. Other operating income

Other operating income comprised of the following:

	2016	2015
Sales of other goods and services rendered	8,826	2,643
Income from alliance agreements	12,817	7,797
Gain on release of payables	–	5,955
Gain on release of provision	9,407	2,265
Other	14,430	11,532
Total other operating income	45,480	30,192

21. Finance costs

Finance costs comprised the following:

	2016	2015
Interest expense	1,596	1,840
Provision for disability payments: unwinding of the present value discount (Note13)	–	305
Total finance costs	1,596	2,145

22. Risk management

Financial risk factors. In the ordinary course of business, the Group is exposed to credit, liquidity and market risks. Market risk arises from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on degree of price volatility, such fluctuations in market prices may create volatility in the Group’s financial position. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. To effectively manage the variety of exposures that may impact financial results, the Group’s overriding strategy is to maintain a strong financial position. Based on structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

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

(i) Foreign exchange risk

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

The majority of the Group’s payables and receivables from foreign vendors and customers are denominated in USD. There were two waves of devaluation of Azerbaijani Manat against USD (34% on 21 February 2015 and 48% on 21 December 2015) and other major foreign currencies in 2015. There has been no significant devaluation of AZN against USD and other major currencies during the year ended 31 December 2016.

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Notes to the consolidated financial statements (continued)

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

22. Risk management (continued)

Market risk (continued). Management does not hedge the Group's foreign exchange risk.

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

	Change in rates (+/-)	Effect on 2016 post-tax profit	Change in rates (+/-)	Effect on 2015 post-tax profit
USD/AZN	20.00%/-20.00%	8,788/(8,788)	60.00%/-15.00%	23,644/(5,911)
EUR/AZN	20.00%/-20.00%	(710)/710	60.00%/-15.00%	(1,041)/260
RUB/AZN	35.00%/-25.00%	(6)/4	50.00%/-33.50%	-/-

(ii) Interest rate risk

The Group is subject to interest rate risk on financial liabilities and assets with variable interest rates. To mitigate this risk, the Group's management performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favourable interest rate terms.

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable over the expected period until maturity.

The floating rate for majority of interest bearing liabilities exposes the Group to fluctuation in interest payments mainly due to changes in LIBOR.

As at 31 December 2015 and 31 December 2016 date the Group's interest bearing liabilities are not significantly affected by fluctuating interest rate.

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

The Group's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, trade receivables and amounts due from customers for contract work.

The Group places its cash with reputable financial institutions in the Azerbaijan Republic. The Group's cash is mainly placed with the International Bank of Azerbaijan (“IBA”) which is controlled by the Azerbaijani Government. The balance of cash and cash equivalents held with the IBA at 31 December 2016 was AZN 4,205 (2015: AZN 769). The Group continually monitors the status of the banks where its accounts are maintained.

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

	31 December 2016	31 December 2015
Cash and cash equivalents (Note 5)	4,205	769
Trade and other receivables, net (Note 6)	143,201	113,937
Total maximum exposure to credit risk	147,406	114,706

“Azerbaijan Caspian Shipping” CJSC**Notes to the consolidated financial statements (continued)***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***22. Risk management (continued)**

Credit risk and concentration of credit risk (continued). The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category are approved annually by management.

In assessing the credit quality of financial assets the Group considers the nature of counterparty, historical information about counterparty, default rates and any other available information which can be used to assess credit quality. Information on credit quality of cash and cash equivalents is disclosed in Note 5.

Trade receivables consist mainly of receivables from offshore and transportation services rendered to top customers operating on the local market in oil and gas industry. The Group's credit risk arising from its trade receivables is further mitigated by continuous monitoring of the creditworthiness of customers.

The geographical concentration of the Group's financial assets and liabilities is set out below:

31 December 2016	Republic of Azerbaijan	European countries	Asian countries	Other countries	Total
Cash and cash equivalents	4,205	–	–	–	4,205
Trade and other receivables	115,515	24,740	2,826	120	143,201
Total financial assets	119,720	24,740	2,826	120	147,406
Loans	34,507	–	–	–	34,507
Trade and other payables	22,999	5,094	1,002	532	29,627
Total financial liabilities	57,506	5,094	1,002	532	64,134
Net financial assets / (liabilities)	62,214	19,646	1,824	(412)	83,272

31 December 2015	Republic of Azerbaijan	European countries	Asian countries	Other countries	Total
Cash and cash equivalents	769	–	–	–	769
Trade and other receivables	110,365	2,281	951	340	113,937
Total financial assets	111,134	2,281	951	340	114,706
Loans	40,142	–	–	–	40,142
Trade and other payables	40,894	2,772	490	155	44,311
Total financial liabilities	81,036	2,772	490	155	84,453
Net financial assets / (liabilities)	30,098	(491)	461	185	30,253

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

“Azerbaijan Caspian Shipping” CJSC**Notes to the consolidated financial statements (continued)***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***22. Risk management (continued)**

Credit quality per class of financial assets. The Group determines credit risk exposure of its financial assets by classifying them according to the Group’s credit ratings of counterparties and international rating agencies, where available. The internal rating procedure is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group’s rating procedure.

The Group classifies financial assets as follows:

- High credit quality – counterparties with excellent financial performance and characterized by remote possibility of credit loss;
- Standard credit quality – counterparties with stable financial performance and characterized by normal creditworthiness;
- Substandard credit quality – counterparties with satisfactory financial performance, and characterized by lower credit quality than standard and by possibility of credit loss.

Assets classified past due or impaired have all the weaknesses inherent in one classified substandard with the added characteristic the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Information regarding the credit risk exposure of financial assets that are neither past due nor impaired according to the Group’s categorization of counterparties is provided in the table below:

31 December 2016	Neither past due nor impaired			Past due but not impaired	Individually impaired	Total
	High	Standard	Substandard			
Cash and cash equivalents	–	4,205	–	–	–	4,205
Trade and other receivables (Note 6)	–	93,218	–	48,398	1,585	143,201
Total financial assets	–	97,423	–	48,398	1,585	147,406

31 December 2015	Neither past due nor impaired			Past due but not impaired	Individually impaired	Total
	High	Standard	Substandard			
Cash and cash equivalents	–	769	–	–	–	769
Trade and other receivables (Note 6)	–	67,709	–	37,708	8,520	113,937
Total financial assets	–	68,478	–	37,708	8,520	114,706

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

Prudent liquidity risk management includes maintaining sufficient working capital and the ability to close out market positions. Management monitors rolling forecasts of the Group’s liquidity reserve on the basis of expected cash flows.

All of the Group’s financial liabilities represent non-derivative financial instruments. The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period from the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying values, as the impact of discounting is not significant.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

22. Risk management (continued)

Liquidity risk (continued). The maturity analysis of financial liabilities as of 31 December 2016 and 31 December 2015 was as follows:

At 31 December 2016	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	10	29,627	–	–	–	29,627
Loans	11	2,802	4,703	19,996	11,762	39,263
Total undiscounted financial liabilities		32,429	4,703	19,996	11,762	68,890

At 31 December 2015	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	10	44,315	–	–	–	44,315
Loans	11	4,325	4,843	20,623	16,526	46,317
Total undiscounted financial liabilities		48,640	4,843	20,623	16,526	90,632

Fair value of financial instruments. The fair value of the financial assets and liabilities is included at the amount 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 estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Set out below is a comparison by class of the carrying amounts and fair value of the Group’s financial instruments that are carried in the consolidated financial statements.

	31 December 2016	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 5)	4,205	4,205
Trade receivables and other receivables (Note 6)	143,201	143,201
Total financial assets	147,406	147,406
Total financial payables (Note 10)	(29,627)	(29,627)
Current portion of long-term loans (Note 11)	(4,864)	(4,864)
Long-term loans (Note 11)	(29,643)	(29,643)
Total financial liabilities	(64,134)	(64,134)

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

22. Risk management (continued)

Fair value of financial instruments (continued)

	31 December 2015	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 5)	769	769
Trade receivables and other receivables (Note 6)	113,937	113,937
Total financial assets	114,706	114,706
Total financial payables (Note 10)	(44,315)	(44,315)
Short-term and current portion of long-term loans (Note 11)	(6,265)	(6,265)
Long-term loans (Note 11)	(33,877)	(33,877)
Total financial liabilities	(84,457)	(84,457)

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

- (i) Short-term financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- (ii) Long-term fixed-rate and variable-rate receivables/loans are evaluated by the Group using Level 3 inputs based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and the risk characteristics of the financed project.

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

The Group is 100% owned by the Government and periodically receives funds in the form of the Government investments for purchase of new vessels

The Group considers total capital under management to be as follows:

	Notes	31 December 2016	31 December 2015
Non-current portion of long-term loans	11	29,643	33,877
Current portion of long-term loans	11	4,864	6,265
Trade and other payables and accrued liabilities	10	35,946	49,472
Less: cash and cash equivalents	5	(4,205)	(769)
Net debt		66,248	88,845
Equity	14	807,409	693,370
Capital and net debt		873,657	782,215
Gearing ratio		8%	11%

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Notes to the consolidated financial statements (continued)

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

23. Contingencies, commitments and operating risks

Operating environment. The Group's operations are mainly conducted in the Caspian Sea region. Besides this, The Group considers significant expansion in its foreign operations and as a result, 66% of dry cargo transportation during 2016 comprised of operations in Black Sea region. As an emerging market, at the present time the Republic of Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

As a result of significant drop in crude oil prices, Azerbaijani Manat devalued against the USD from AZN 0.7862 to AZN 1.0500 for 1 USD on 21 February 2015 and further to AZN 1.5500 for 1 USD on 21 December 2015 (also, against Euro from AZN 0.8934 to AZN 1.1950 for 1 Euro on 21 February 2015 and further to AZN 1.6850 for 1 Euro on 21 December 2015). During 2016 official exchange rate fluctuated between AZN 1.4900 and AZN 1.7707 for 1 USD (also from AZN 1.6595 and AZN 1.8716 for 1 euro). Following the second devaluation, the Central Bank of the Republic of Azerbaijan announced floating exchange rate. The AZN interest rates remained high.

There continues to be uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Group's future results and financial position and business prospects in a manner not currently determinable. Such adverse impacts could include decrease of the Group's revenue, with increases in non-recoverable receivables.

Azerbaijani government announced plans to accelerate reforms and support to mainly, banking system and other industry sectors in response to current economic challenges.

The Group's Management is monitoring these developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

While Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

Legal proceedings. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Tax legislation. Azerbaijan tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

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

Environmental matters. The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision (Note 13) currently made by the Group.

“Azerbaijan Caspian Shipping” CJSC

Notes to the consolidated financial statements (continued)

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

22. Contingences, commitments and operating risks (continued)

Environmental matters (continued). The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the Group to take future action to remediate the effects on the environment of the Group’s operations. Such contingencies may exist for various waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in the consolidated financial statements in accordance with the Group’s accounting policies. While the amounts of future costs could be significant and could be material to the Group’s results of operations in the period in which they are recognised, it is not practical to estimate the amounts involved. The Group does not expect these costs to have a material effect on the Group’s financial position or liquidity.

24. Events after the reporting date

Establishment of “Caspdry Gemi İşletmeciliyi” AŞ (“Caspdry Vessel Management” LLC) in Turkey. In accordance with the order dated 8 February 2017 new subsidiary “Caspdry Gemi İşletmeciliyi” AŞ had been established with share capital of 50,000 shares with 1 Turkish Lira par value for each. “Caspdry Gemi İşletmeciliyi” AŞ is 100% owned by the Group. The purpose of the establishment of subsidiary is to manage dry cargo vessels effectively in Black Sea region.

Establishment of “Casptankers Gemi İşletmeciliyi” AŞ (“Casptankers Vessel Management” LLC) in Turkey. In accordance with the order dated 8 February 2017 new subsidiary “Casptankers Gemi İşletmeciliyi” AŞ had been established with share capital of 50,000 shares with 1 Turkish Lira par value for each. “Casptankers Gemi İşletmeciliyi” AŞ is 100% owned by the Group. The purpose of the establishment of subsidiary is to broaden operations in liquid transportation and strengthen the position of the Group in Black Sea region.

Establishment of “Azerbaijan Caspian Shipping Limited” in Republic of Malta. In accordance with the order dated 8 February 2017 new subsidiary “Azerbaijan Caspian Shipping Limited” had been established with share capital of 1,200 Euro. “Azerbaijan Caspian Shipping Limited” is 100% owned by the Group. The purpose of the establishment of subsidiary is to broaden operations and maintain effective relationships with foreign companies.

Contribution to the charter capital of “Caspian Engineering Bureau” LLC. In accordance with the protocol of shareholders meeting dated 5 December 2016 the amount of AZN 1 was paid for the charter capital of newly established company namely “Caspian Engineering Bureau”, with 51% ownership by the Group.

Acquisition of new vessel. In accordance with the purchase agreement signed on 9 March 2017 the Group acquired one new vessels namely, “Bakinskaya 6” from “GidroTrans” Limited Liability Company. Purchase price of the vessels is USD 650,000.

Shareholder contribution. In accordance with decree of President of the Republic of Azerbaijan dated 13 January 2017 contribution in amount of AZN 16,000 was allocated to the Group for the purpose of construction of 2 tankers and 2 Ro-Pax ferry-vessel by Baku Shipyard Company. In April 2017 the amount of AZN 8,000 was received by the Group as part of this contribution.

Implementation of evaluation of performance efficiency and a payment system based on performance results. According to the Order of President of the Republic of Azerbaijan dated 5 September 2016, it was given an assignment to implement evaluation of performance efficiency and a payment system based on performance results of the legal entities owned by the Government. On 2 September 2016 “Motivation and Remuneration policy” of the Group was approved. Based on this policy, balanced “Key Performance Indicators” (KPI) system was prepared and applied effectively from 1 January 2017, in order to meet strategic targets and objectives of the Group.