

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

**Consolidated financial statements**

*For the year ended 31 December 2019  
with independent auditor's report*

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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 2019, 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 consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 scepticism throughout the audit. We also:

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



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

*Ernst & Young Holdings (CIS) B.V.*

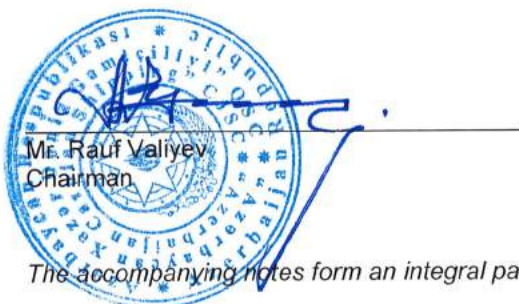
17 March 2020

Baku, Azerbaijan

**Consolidated statement of financial position****As at 31 December 2019***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)*

	Notes	31 December 2019	31 December 2018
<b>Assets</b>			
<b>Non-current assets</b>			
Vessels, property, plant and equipment	13	839,661	766,508
Intangible assets		5,701	4,087
Long-term prepayments	9	3,570	120,295
Right-of-use asset	14	2,467	-
Deferred tax assets	21	-	-
<b>Total non-current assets</b>		<b>851,399</b>	<b>890,890</b>
<b>Current assets</b>			
Inventories	10	85,634	82,614
Trade and other receivables	7	248,212	178,800
Taxes receivable	8	10,550	22,035
Short-term prepayments	9	13,330	11,406
Cash and cash equivalents	6	3,087	9,995
Restricted cash	6	54	302
<b>Total current assets</b>		<b>360,867</b>	<b>305,152</b>
<b>Total assets</b>		<b>1,212,266</b>	<b>1,196,042</b>
<b>Equity</b>			
Share capital	16	440,051	440,051
Additional paid-in capital	16	80,000	36,000
Retained earnings		457,263	514,937
<b>Total equity</b>		<b>977,314</b>	<b>990,988</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term loans	12	17,172	50,781
Non-current provisions	15	5,911	4,555
Deferred tax liabilities	21	21,167	14,148
<b>Total non-current liabilities</b>		<b>44,250</b>	<b>69,484</b>
<b>Current liabilities</b>			
Short-term loans	12	25,228	9,000
Current portion of long-term loans	12	35,524	16,322
Contract liabilities		2,094	17,035
Trade and other payables	11	89,478	79,117
Current provisions	15	7,269	9,630
Lease liability	14	10,509	-
Taxes payable	20	20,600	4,466
<b>Total current liabilities</b>		<b>190,702</b>	<b>135,570</b>
<b>Total liabilities</b>		<b>234,952</b>	<b>205,054</b>
<b>Total equity and liabilities</b>		<b>1,212,266</b>	<b>1,196,042</b>

Signed and authorized for release on behalf of the Group on 17 March 2020.



Mr. Rauf Valiyev  
Chairman



Mr. Jalal Farajli  
Deputy Chairman on Economic Issues

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

**Consolidated statement of profit or loss and other comprehensive income****For the year ended 31 December 2019***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)*

	<b>Notes</b>	<b>2019</b>	<b>2018</b>
Revenue	17	479,192	452,171
Cost of sales	18	(300,065)	(294,242)
<b>Gross profit</b>		<b>179,127</b>	<b>157,929</b>
General and administrative expenses	18	(51,485)	(52,461)
Social expenses	18	(12,354)	(12,132)
Other operating income	22	32,118	33,253
Other operating expenses	18	(56,672)	(48,114)
Loss on disposal of vessels, property, plant and equipment		(70)	(200)
Foreign exchange gain/(loss)		157	(692)
<b>Operating profit</b>		<b>90,821</b>	<b>77,583</b>
Finance costs	23	(1,288)	(1,914)
<b>Profit before income tax</b>		<b>89,533</b>	<b>75,669</b>
Income tax expense	21	(25,660)	(23,207)
<b>Profit for the year</b>		<b>63,873</b>	<b>52,462</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>63,873</b>	<b>52,462</b>

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

**Consolidated statement of changes in equity****For the year ended 31 December 2019***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)*

	Share capital	Additional paid-in capital	Retained earnings	Total
<b>Balance at 1 January 2018</b>	<b>440,051</b>	<b>16,000</b>	<b>462,475</b>	<b>918,526</b>
Total comprehensive income for the year	-	-	52,462	52,462
Increase in additional paid-in capital (Note 16)	-	20,000	-	20,000
<b>Balance at 31 December 2018</b>	<b>440,051</b>	<b>36,000</b>	<b>514,937</b>	<b>990,988</b>
Total comprehensive income for the year	-	-	63,873	63,873
Increase in additional paid-in capital (Note 16)	-	44,000	-	44,000
Dividend paid to shareholder (Note 9)	-	-	(121,547)	(121,547)
<b>Balance at 31 December 2019</b>	<b>440,051</b>	<b>80,000</b>	<b>457,263</b>	<b>977,314</b>

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



**Consolidated statement of cash flows****For the year ended 31 December 2019***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)*

	<b>Notes</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>			
Profit before income tax		89,536	75,669
<i>Adjustments for:</i>			
Depreciation of vessels, property, plant and equipment and right-of-use assets	13, 14	79,000	60,733
Amortisation and impairment of intangible assets	17	675	442
Expected credit losses of trade and other receivables	7	3,502	1,099
Net foreign exchange differences		99	(995)
Loss on disposal of vessels, property, plant and equipment	13	70	200
Finance costs	23	1,196	1,914
Gain on release of provision and recovery of receivables written-off	22	-	(925)
<b>Operating cash flows before working capital changes</b>		<b>174,078</b>	<b>138,137</b>
(Increase) in trade and other receivables	7	(72,102)	(29,319)
(Increase) in inventories	10	(3,020)	(7,665)
(Increase) in prepayments	9	(586)	(1,963)
Decrease / (Increase) in taxes receivable	8	11,485	(6,736)
Decrease / (Increase) in restricted cash	6	248	(237)
(Decrease) / Increase in trade and other payables	11	(43,139)	13,130
(Decrease) / Increase in contract liabilities		(14,941)	17,035
Increase / (Decrease) in provision	15	(1,005)	3,608
Increase in taxes payable	20	11,060	2,338
<b>Cash generated from operations</b>		<b>62,078</b>	<b>128,328</b>
Income taxes paid	20, 21	(13,568)	(9,839)
Interest paid		(3,272)	(1,914)
<b>Net cash flows from operating activities</b>		<b>45,238</b>	<b>116,575</b>
<b>Cash flows from investing activities</b>			
Purchase of vessels, property, plant and equipment	13	(94,740)	(178,346)
Purchase of intangible assets		(2,290)	(2,091)
<b>Net cash flows used in investing activities</b>		<b>(97,030)</b>	<b>(180,437)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term loans	12	1,435	41,065
Proceeds from short-term loans	12	32,461	12,000
Repayment of long-term loans	12	(15,842)	(4,235)
Repayment of short-term loans	12	(16,233)	(3,000)
Increase in additional paid-in capital	16	44,000	20,000
<b>Net cash flows from financing activities</b>		<b>45,821</b>	<b>65,830</b>
<b>Net increase in cash and cash equivalents</b>		<b>(5,971)</b>	<b>1,968</b>
Net foreign exchange difference		(937)	995
Cash and cash equivalents at the beginning of the year	6	9,995	7,032
<b>Cash and cash equivalents at the end of the year</b>		<b>3,087</b>	<b>9,995</b>

*The accompanying notes form an integral part of these 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 and its subsidiaries are management of the state-owned shipping companies.

The Company and its subsidiaries are together referred to as "the Group" in these consolidated financial statements. The Group comprises the offshore support and merchant fleets, two shipyards, production support and social development business entities and entities providing logistics services, maritime education, implementation of repair, construction, installation and design works with near to 7,734 of full-time employees.

The ultimate controlling party of the Group as at 31 December 2019 and 2018 is the Government of the Republic of Azerbaijan (the "Government").

The registered address of the Group is M.A. Rasolzade 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 2019.

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 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.

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

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

### Basis for consolidation (continued)

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.

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.

(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 Azerbaijani 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 2019 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000, EUR 1 = AZN 1.9035, RUB 1 = AZN 0.0274, TRY 1 = AZN 0.2858 (31 December 2018: USD 1 = AZN 1.7000, EUR 1 = AZN 1.9468, RUB 1 = AZN 0.0245, TRY 1 = AZN 0.3212).

### 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.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

### Financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

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

### **Financial assets (continued)**

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### ***Subsequent measurement***

For purposes of subsequent measurement, financial assets are classified in four categories:

- ▶ Financial assets at amortised cost (debt instruments);
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- ▶ Financial assets at fair value through profit or loss.

#### ***Financial assets at amortised cost (debt instruments)***

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group has no debt instruments at fair value through OCI.

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

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

### Financial assets (continued)

#### *Financial assets designated at fair value through OCI (equity instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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 recognised in the statement of profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

### **Financial assets (continued)**

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### ***Impairment of financial assets***

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs.

Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.



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

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

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, short-term and long-term loans.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

##### *Loans and borrowings*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

#### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

#### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

*(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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for expected credit losses. A receivable represents the Group's right to an amount of consideration that is unconditional.

### **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 represent amount available on VAT deposit account and are excluded from cash and cash equivalents for the purposes of consolidated 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 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.

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.

(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)

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

#### *Group as a lessee*

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

##### *i) Right-of-use assets*

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

Plant and machinery	3 to 15 years
Motor vehicles and other equipment	3 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

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

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

### Leases (continued)

#### ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

#### iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense 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.

### 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.

### 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.

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

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

### Intangible assets (continued)

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.

### 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.

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

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

### Value-added tax (continued)

#### *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 (mainly, time-charters) and transportation of cargo and passengers (mainly, voyage charters). Revenue is recognised when control of the services or goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services or goods. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

#### *Revenue from voyage charters*

Revenues from voyage charters are earned for the carriage of cargo on behalf of the charterer, in the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached the Group is compensated for the additional time incurred in the form of demurrage revenue. Demurrage is a variable consideration which is recognised, from the time it becomes probable, over the remaining time of the voyage. In applying its revenue recognition method, management believes that satisfaction of a performance obligation for a voyage charter begins when the vessel arrives at the loading port and ends at the time the discharge of cargo is completed at the discharge port (load to discharge, which is when the contract with the customer expires). The Group uses the output method for measuring the progress towards satisfaction of a performance obligation, i.e. voyage revenue is recognised pro-rata based on time elapsed from loading to the expected date of completion of the discharge.

#### *Revenue from time charters*

Revenues from time charters are earned for use of the services of the vessel and the crew by the charterer for an agreed period of time. The time-charter contracts continues to be accounted for as a service contract. The performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group.

#### *Other revenues*

Other revenues from non-core operating activities usually contain one distinct performance obligation, which is satisfied over time as the customer simultaneously receives and consumes the benefit from the Group's performance, using the output method. Whereas, there are also other revenues from contracts related to sales of goods and services of the Group not directly related to core business, which are satisfied at the point of time.

### Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs, by transferring goods or services to a customer, before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

### Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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

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

### **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.

### **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**

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### **Provision for expected credit losses of trade receivables and contract assets**

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

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

### 3. Critical accounting estimates and judgements (continued)

#### Provision for expected credit losses of trade receivables and contract assets (continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 7.

#### 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.

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.



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

### **3. Critical accounting estimates and judgements (continued)**

#### **Deferred tax (continued)**

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 at 31 December 2019 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.

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***4. Changes in accounting policies****New and amended standards and interpretations**

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

*IFRS 16 Leases*

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

<b>Assets</b>	
Right-of-use assets	4,935
<b>Total assets</b>	<b>4,935</b>
<b>Liabilities</b>	
Trade and other payables	5,087
Lease liabilities	(10,022)
<b>Total liabilities</b>	<b>(4,935)</b>

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- ▶ Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- ▶ Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- ▶ Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- ▶ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- ▶ Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

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

#### 4. Changes in accounting policies (continued)

##### New and amended standards and interpretations (continued)

###### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- ▶ Whether an entity considers uncertain tax treatments separately;
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- ▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- ▶ How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Interpretation did not have an impact on financial statements of the Group.

###### *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on financial statements of the Group.

###### *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

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

#### **4. Changes in accounting policies (continued)**

##### **New and amended standards and interpretations (continued)**

###### *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

###### **Annual Improvements 2015-2017 Cycle**

###### *IFRS 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

###### *IFRS 11 Joint Arrangements*

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

###### *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

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

#### 4. Changes in accounting policies (continued)

##### New and amended standards and interpretations (continued)

###### IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

#### 5. 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.

###### Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

#### 6. Cash and cash equivalents and restricted cash

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

	31 December 2019	31 December 2018
AZN denominated bank balances	869	3,759
USD denominated bank balances	833	5,728
EUR denominated bank balances	915	497
TRY denominated bank balances	470	3
Cash on hand	-	8
VAT deposit account, AZN	54	302
<b>Total cash and cash equivalents and restricted cash</b>	<b>3,141</b>	<b>10,297</b>

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.

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***7. Trade and other receivables**

Trade and other receivables comprised the following as at:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Trade and other receivables	262,690	189,777
Less: provision for expected credit losses	(14,478)	(10,977)
<b>Total trade and other receivables</b>	<b>248,212</b>	<b>178,800</b>

Movements on the provision for expected credit losses of trade receivables were as follows:

	<b>2019</b>	<b>2018</b>
<b>At 1 January</b>	<b>(10,977)</b>	<b>(9,878)</b>
Charge for the year	(3,501)	(1,099)
<b>At 31 December</b>	<b>(14,478)</b>	<b>(10,977)</b>

**8. 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:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Receivable from state budget	1,101	16,732
VAT recoverable	9,449	5,303
<b>Total taxes receivable</b>	<b>10,550</b>	<b>22,035</b>

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.

**9. Prepayments**

Prepayments comprised the following as at:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Short-term prepayments for trade and services	13,330	11,406
Long-term prepayments for purchase of vessels	3,570	120,295
<b>Total prepayments</b>	<b>16,900</b>	<b>131,701</b>

Prepayments as at 31 December 2019 and 31 December 2018 are primarily represented by prepayments made to suppliers for construction of vessels, raw materials, spare parts and equipment and repair and maintenance services for vessels. During 2019, the Group's long-term prepayments balance decreased in the amount of AZN 112,186 occurred by the transfer of prepayment balance related to ongoing construction of vessel as dividend to State Maritime Agency in the structure of the Ministry of Transport, Communications and High Technologies of the Republic of Azerbaijan with the purpose of utilization in future governmental projects after completion of construction.

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

## 10. Inventories

Inventories comprised the followings as at:

	31 December 2019	31 December 2018
Raw materials and spare parts	74,392	75,012
Fuel	6,381	4,937
Other	4,861	2,665
<b>Total inventories</b>	<b>85,634</b>	<b>82,614</b>

## 11. Trade and other payables

Trade and other payables as at 31 December 2019 and 31 December 2018 represent amounts due to suppliers for raw materials, spare parts and equipment and repair and maintenance services for vessels.

	31 December 2019	31 December 2018
Trade payables	80,123	70,444
<b>Total financial payables</b>	<b>80,123</b>	<b>70,444</b>
Payable to employees	9,355	8,673
<b>Total trade and other payables</b>	<b>89,478</b>	<b>79,117</b>

Financial payables in amount of AZN 63,437 (31 December 2017: AZN 50,123) are denominated in foreign currencies, mainly in USD and EUR.

## 12. Loans

At 31 December 2019 and 31 December 2018, short-term loans of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Balance as at 31 December 2019	Balance as at 31 December 2018
Short-term facilities in AZN	10%/4.5%	October 2020 / December 2020	25,228	9,000
Current portion of long-term borrowings			35,524	16,322
<b>Total short-term loans and current portion of long-term loans</b>			<b>60,752</b>	<b>25,322</b>

As at 31 December 2019 and 31 December 2018, long-term loans of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Balance as at 31 December 2019		Balance as at 31 December 2018	
			Non-current portion	Current portion	Non-current portion	Current portion
Azerbaijani Manat 42 million	3.65%	August 2024	16,932	4,721	21,174	4,864
USD 2 million	4.9%	October 2020	-	2,125	2,125	425
USD 10 million	4.9%	December 2020	-	16,449	16,449	-
USD 13 million	4.9%	June 2020	-	11,033	11,033	11,033
USD 1 million	4.9%	February 2020	240	1,196	-	-
<b>Total long-term loans</b>			<b>17,172</b>	<b>35,524</b>	<b>50,781</b>	<b>16,322</b>

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

### 13. 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
<b>Cost</b>						
At 1 January 2018	106,758	26,377	1,140,045	22,868	78,423	1,374,471
Additions	256	4,408	15,889	2,084	134,958	157,595
Disposals	(138)	(346)	–	(551)	–	(1,035)
Transfers	1,080	–	65,634	70	(66,784)	–
At 31 December 2018	107,956	30,439	1,221,568	24,471	146,597	1,531,031
Additions	2,421	2,271	14,504	8,672	139,833	167,701
Disposals	(9,684)	(531)	(30,795)	(6,597)	(2,316)	(49,923)
Transfers	1,380	–	43,560	–	(44,940)	–
At 31 December 2019	102,073	32,179	1,248,837	26,546	239,174	1,648,809
<b>Depreciation</b>						
At 1 January 2018	(17,835)	(15,103)	(648,470)	(16,226)	(6,991)	(704,625)
Depreciation charge for the year	(4,551)	(2,530)	(51,307)	(2,345)	–	(60,733)
Disposals	19	456	–	360	–	835
At 31 December 2018	(22,367)	(17,177)	(699,777)	(18,211)	(6,991)	(764,523)
Depreciation charge for the year	(5,058)	(2,850)	(66,389)	(2,235)	–	(76,532)
Disposals	1,408	220	29,768	511	–	31,907
At 31 December 2019	(26,017)	(19,807)	(736,398)	(19,935)	(6,991)	(809,148)
<b>Net book value</b>						
At 1 January 2018	88,923	11,274	491,575	6,642	71,432	669,846
At 31 December 2018	85,589	13,262	521,791	6,260	139,606	766,508
At 31 December 2019	76,056	12,372	512,439	6,611	232,183	839,661



*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***14. Right-of-use asset and Lease liability****Group as a lessee**

The Group has lease contracts for 2 items of tankers operating in Black Sea region and head office area used in its operations. The contracts for the tankers are under bareboat-charter agreements, which are finalized at the end of 2020. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has leases of office area with lease terms of 12 months in which the 'short-term lease' exemption is applied considering the definition of short-term lease under IFRS 16.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	<u>Vessels and port facilities</u>	<u>Total</u>
<b>Cost</b>		
<b>At 1 January 2019</b>	<b>4,935</b>	<b>4,935</b>
Additions	-	-
Depreciation expense	(2,468)	(2,468)
<b>At 31 December 2019</b>	<b>2,467</b>	<b>2,467</b>

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<u>2019</u>
<b>Cost</b>	
<b>At 1 January 2019</b>	<b>(10,022)</b>
Additions	-
Accretion of interest	(487)
Payment	-
<b>At 31 December 2019</b>	<b>(10,509)</b>

**15. Provisions**

	<u>Disability payments</u>	<u>Unused vacation</u>	<u>Total</u>
<b>Carrying amount at 1 January 2018</b>	<b>(3,343)</b>	<b>(7,234)</b>	<b>(10,577)</b>
Utilization	1,483	22,840	24,323
Disposals	0	0	0
Charge	(3,557)	(24,374)	(27,931)
<b>Carrying amount at 31 December 2018</b>	<b>(5,417)</b>	<b>(8,768)</b>	<b>(14,185)</b>
Utilization	1,529	21,434	22,963
Disposals	(1,591)	(18,835)	(20,426)
Charge	(1,532)	-	(1,532)
<b>Carrying amount at 31 December 2019</b>	<b>(7,011)</b>	<b>(6,169)</b>	<b>(13,180)</b>
<b>At 31 December 2018</b>	<b>(5,417)</b>	<b>(8,768)</b>	<b>(14,185)</b>
Current	(862)	(8,768)	(9,630)
Non-current	(4,555)	-	(4,555)
<b>At 31 December 2019</b>	<b>(7,011)</b>	<b>(6,169)</b>	<b>(13,180)</b>
Current	(1,100)	(6,169)	(7,269)
Non-current	(5,911)	-	(5,911)

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

## 15. Provisions (continued)

### 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 6.90% and 8.93% as at 31 December 2019 and 31 December 2018, respectively. For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 73 and 78 for men and women, respectively.

## 16. Share capital and additional paid-in capital

### Share capital

The Group includes fifteen separate legal entities each possessing their own share capital. As at 31 December 2019 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.

### Additional paid-in capital

In 2019 the Group's additional paid-in capital increased by AZN 44,000 (2018: AZN 20,000) of which full amount was contributed as cash.

## 17. Analysis of revenue by categories

The Group's revenue are split into lease and non-lease revenue. Lease revenue is comprised of revenue generated from bareboat and time-charter contracts.

	Note	2019	2018
Lease revenue		94,992	68,345
Non-lease revenue		384,200	383,826
<b>Total revenue</b>		<b>479,192</b>	<b>452,171</b>
Other operating income from contracts	22	32,118	32,328
<b>Total revenue from contracts</b>		<b>511,310</b>	<b>484,499</b>

Non-lease revenue includes freight and passenger transportation, offshore support services and logistics services. Revenue generated by business segments are:

	2019	2018
Offshore support services	179,346	180,946
Freight and passenger transportation	185,393	170,975
Logistics services	12,179	23,122
Other revenue	7,283	8,784
<b>Total non-lease revenue</b>	<b>384,200</b>	<b>383,826</b>

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***18. Analysis of expenses by nature**

For the year ended 31 December 2019 and 31 December 2018 cost of sales, social, general and administrative expenses and other operating expenses comprised the followings:

	<b>2019</b>	<b>2018</b>
Wages, salaries and social security costs	144,353	140,635
Depreciation of vessels, property, plant and equipment	79,000	60,733
Raw materials and consumables used	51,825	55,922
Repairs and maintenance expenses	23,066	24,977
Port charges	29,040	22,632
Logistics expenses	15,364	21,750
Food expenses	12,429	13,689
Daily travelling expenses of the crew of marine transports	9,523	10,483
Reimbursable expenses	9,438	8,497
Rent expenses	1,187	5,027
Taxes other than on income	8,228	4,599
Provision of social housing	3,581	4,466
Insurance expenses	7,372	4,101
Utilities expenses	3,656	3,999
Agency and brokerage costs	3,746	3,781
Sponsorship expenses	3,778	3,407
Vessels registration costs	2,954	3,092
Expected credit losses of trade and other receivables	3,502	1,099
Business trip expenses	467	895
Amortisation of intangible assets	675	442
Written off trade receivables	-	285
Other	7,392	12,438
<b>Total cost of sales, social, general, administrative and other operating expenses</b>	<b>420,576</b>	<b>406,949</b>

In 2018 and 2019, social expenses mainly consist of costs incurred on projects carried out within the framework of the Group's social and corporate responsibility, including costs for the construction of a residential building for seafarers who have been registered in the housing queue since Soviet times, and for sponsorship of a number of sports organizations as a result of increasing care for sport in the country.

**19. 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 2019 compensation of key management personnel totalled to AZN 618 (2018: AZN 464).

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.

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***19. Balances and transactions with related parties (continued)**

At 31 December 2019 and 31 December 2018, the outstanding balances with related parties were as follows:

	<b>Government and entities under government control 31 December 2019</b>	<b>Government and entities under government control 31 December 2018</b>
Trade and other receivables	252,472	181,172
Provision for expected credit losses	(12,351)	(7,291)
Prepayments	3,279	7,466
Cash and cash equivalents and restricted cash	561	6,818
Long-term loans	(17,172)	(50,781)
Current portion of long-term loans	(35,524)	(16,322)
Short-term loans	(10,000)	(9,000)
Trade and other payables	(33,290)	(9,485)
Taxes payable	(18,814)	(4,466)

The transactions with related parties for the year ended 31 December 2019 and 31 December 2018 were as follows:

	<b>Government and entities under govern- ment control 31 December 2019</b>	<b>Government and entities under govern- ment control 31 December 2018</b>
Freight and passenger transportation services	52,130	61,632
Offshore support services	239,141	228,398
Other operating income	13,406	13,686
Property tax	(4,725)	(4,827)
Other taxes	(3,848)	(4,569)
Net VAT on free transferred fixed assets	(12)	(2)
Tax fines and claims	-	(30)
Repairs and maintenance expenses	(1,332)	(1,909)
Utilities expense	(2,526)	(2,761)
Port expenses	(6,886)	(4,904)
Bank charges	(786)	(815)
Finance cost	(3,223)	(1,824)
Other expenses	(2,151)	(1,621)

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.

**20. Taxes payable**

Taxes payable comprises the following at:

	<b>2019</b>	<b>2018</b>
Current income tax payable	(5,073)	(844)
Social security contributions	(3,089)	(2,782)
Other	(12,438)	(840)
<b>Total taxes payable</b>	<b>(20,600)</b>	<b>(4,466)</b>

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

## 21. Income taxes

Income tax expense comprises the following:

	2019	2018
Current income tax expense	(18,641)	(10,683)
Deferred tax charge	(7,019)	(12,524)
<b>Income tax expense for the year ended 31 December</b>	<b>(25,660)</b>	<b>(23,207)</b>

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

	2019	2018
<b>Profit before tax</b>	<b>89,533</b>	<b>75,669</b>
<b>Theoretical tax charge at statutory rate of 20 per cent</b>	<b>(17,907)</b>	<b>(15,134)</b>
Tax effect of non-deductible expenses	(5,611)	(5,666)
Unrecognised temporary differences	(1,061)	(1,146)
Investment in subsidiaries	(744)	-
Other	(337)	(1,261)
<b>Income tax expense for the year ended 31 December 2019</b>	<b>(25,660)</b>	<b>(23,207)</b>

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 2018	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2019
<b>Tax effect of deductible/(taxable) temporary differences</b>			
Right-of-use asset	-	(493)	(493)
Vessels, property, plant and equipment	(20,659)	(7,932)	(28,591)
Current and non-current prepayments	-	(150)	(150)
Trade payables and accrued liabilities	429	(679)	(250)
<b>Deferred tax liabilities</b>	<b>(20,230)</b>	<b>(9,254)</b>	<b>(29,484)</b>

	31 December 2018	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2019
<b>Tax effect of deductible/(taxable) temporary differences</b>			
Non-current and current provisions	2,918	(182)	2,736
Trade and other receivables, net	3,020	361	3,381
Inventories	144	(48)	96
Current lease liability	-	2,104	2,104
<b>Deferred tax assets</b>	<b>6,082</b>	<b>2,235</b>	<b>8,317</b>
<b>Deferred tax liabilities (net)</b>	<b>(14,148)</b>	<b>(7,019)</b>	<b>(21,167)</b>

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

**21. Income taxes (continued)**

	31 December 2017	Effect of IFRS 9 adoption	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2018
<b>Tax effect of deductible/ (taxable) temporary differences</b>				
Vessels, property, plant and equipment	4	-	(4)	-
Trade and other receivables, net	775	-	(775)	-
Inventories	8	-	(8)	-
Trade payables and accrued liabilities	319	-	(319)	-
<b>Deferred tax assets</b>	<b>1,106</b>	<b>-</b>	<b>(1,106)</b>	<b>-</b>

	31 December 2017	Effect of IFRS 9 adoption	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2018
<b>Tax effect of deductible/ (taxable) temporary differences</b>				
Vessels, property, plant and equipment	(7,964)	-	(12,695)	(20,659)
Non-current and current provisions	2,115	-	803	2,918
Trade and other receivables, net	1,482	1,253	285	3,020
Inventories	338	-	(194)	144
Trade payables and accrued liabilities	45	-	384	429
<b>Deferred tax liabilities</b>	<b>(3,984)</b>	<b>1,253</b>	<b>(11,417)</b>	<b>(14,148)</b>
<b>Deferred tax liabilities (net)</b>	<b>(2,878)</b>	<b>1,253</b>	<b>(12,523)</b>	<b>(14,148)</b>

**22. Other operating income**

Other operating income comprised of the following:

	2019	2018
Sales of other goods and services rendered	12,938	12,215
Income from alliance agreement	11,240	10,484
Other	7,940	9,629
<b>Other operating income from contracts</b>	<b>32,118</b>	<b>32,328</b>
Gain on release of provision and recovery of receivables written-off	-	925
<b>Total other operating income</b>	<b>32,118</b>	<b>33,253</b>

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***23. Finance costs**

Finance costs comprised the following:

	<b>2019</b>	<b>2018</b>
Interest expense	1,288	1,914
<b>Total finance costs</b>	<b>1,288</b>	<b>1,914</b>

**24. Risk management****Financial risk factors**

The Group's management that have the appropriate skills, experience and supervision oversees the management of risks and monitors the Group's overall position on a regular basis. This process of risk management is critical to the Group and key individuals within the Group are accountable for the risk exposures relating to their responsibilities.

The Group's principal financial liabilities comprise trade payables, short-term and long-term loans. Cash and cash equivalents, term deposits, restricted cash, accrued revenues/incomes and trade and other receivables represent the Group's principal financial assets. Both principal financial liabilities and financial assets arise directly from the Group's operations.

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 2018 and 2019.

Management does not hedge the Group's foreign exchange risk.

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

## 24. Risk management (continued)

### Market risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR, TRY 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 2019 post-tax profit	Change in rates (+/-)	Effect on 2018 post-tax profit
USD/AZN	10.00%/-3.00%	(4,425)/948	14.00%/-3.00%	(6,513)/1,396
EUR/AZN	10.00%/-6.00%	(3,657)/784	14.00%/-3.00%	(1,053)/226
TRY/AZN	15.00%/-17.00%	65/(81)	20.00%/-25.00%	(25)/31

### (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.

As at 31 December 2018 and 31 December 2019 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 and trade receivables.

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 2019 was AZN 551 (2018: AZN 6,580). 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 2019	31 December 2018
Cash and cash equivalents (Note 6)	3,087	9,995
Trade and other receivables, net (Note 7)	248,212	178,800
<b>Total maximum exposure to credit risk</b>	<b>251,299</b>	<b>188,795</b>

Trade and other receivables in amount of AZN 60,630 (31 December 2018: AZN 31,418) are denominated in foreign currencies, mainly in USD and EUR.



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

## 24. Risk management (continued)

### Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in above table.

The expected loss allowance as at 31 December 2019 and 1 January 2019 was determined as follows for trade receivables from customers:

	Less than 30 days past due	30-60 days past due	61-90 days past due	91-360 days past due	More than 360 days past due	Total
<b>31 December 2019</b>						
Gross carrying amount of trade receivables	39,709	37,657	27,511	155,560	2,253	<b>262,690</b>
Less provision for ECL	(4,712)	(1,408)	(1,296)	(6,024)	(1,038)	<b>(14,478)</b>
<b>Net trade receivables</b>	<b>34,997</b>	<b>36,249</b>	<b>26,215</b>	<b>149,536</b>	<b>1,215</b>	<b>248,212</b>
	Less than 30 days past due	30-60 days past due	61-90 days past due	91-360 days past due	More than 360 days past due	Total
<b>31 December 2018</b>						
Gross carrying amount of trade receivables	36,515	40,104	26,799	85,783	576	<b>189,777</b>
Less provision for ECL	(3,822)	(1,645)	(1,423)	(4,036)	(51)	<b>(10,977)</b>
<b>Net trade receivables</b>	<b>32,693</b>	<b>38,459</b>	<b>25,376</b>	<b>81,747</b>	<b>525</b>	<b>178,800</b>

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.

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.

### 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.

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

## 24. Risk management (continued)

### Liquidity risk (continued)

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.

The maturity analysis of financial liabilities as at 31 December 2019 and 31 December 2018 was as follows:

At 31 December 2019	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	80,123	-	-	-	80,123
Loans	12	20,364	23,473	16,668	-	60,505
<b>Total undiscounted financial liabilities</b>		<b>100,487</b>	<b>23,473</b>	<b>16,668</b>	<b>-</b>	<b>140,628</b>

At 31 December 2018	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	70,444	-	-	-	70,444
Loans	12	3,898	25,625	48,931	2,706	81,160
<b>Total undiscounted financial liabilities</b>		<b>74,342</b>	<b>25,625</b>	<b>48,931</b>	<b>2,706</b>	<b>151,604</b>

### 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 2019	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 6)	3,087	3,087
Trade receivables and other receivables (Note 7)	248,212	248,212
<b>Total financial assets</b>	<b>251,299</b>	<b>251,299</b>
Total financial payables (Note 11)	(80,123)	(80,123)
Short-term loans (Note 12)	(25,228)	(25,228)
Current portion of long-term loans (Note 12)	(35,524)	(35,524)
Long-term loans (Note 12)	(17,172)	(17,172)
<b>Total financial liabilities</b>	<b>(158,047)</b>	<b>(158,047)</b>

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***24. Risk management (continued)****Fair value of financial instruments (continued)**

	<b>31 December 2018</b>	
	<b>Carrying amounts</b>	<b>Fair values</b>
Cash and cash equivalents (Note 6)	9,995	9,995
Trade receivables and other receivables (Note 7)	178,800	178,800
<b>Total financial assets</b>	<b>188,795</b>	<b>188,795</b>
Total financial payables (Note 11)	(70,444)	(70,444)
Short-term loans (Note 12)	(9,000)	(9,000)
Current portion of long-term loans (Note 12)	(16,322)	(16,322)
Long-term loans (Note 12)	(50,781)	(50,781)
<b>Total financial liabilities</b>	<b>(146,547)</b>	<b>(146,547)</b>

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:

	<b>Notes</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Short-term loans	12	25,228	9,000
Non-current portion of long-term loans	12	17,172	50,781
Current portion of long-term loans	12	35,524	16,322
Trade and other payables and accrued liabilities	11	89,478	79,117
Less: cash and cash equivalents	6	(3,087)	(9,995)
<b>Net debt</b>		<b>164,315</b>	<b>145,225</b>
Equity	16	977,314	990,988
<b>Capital and net debt</b>		<b>1,141,629</b>	<b>1,136,213</b>
Gearing ratio		14%	13%

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

## 25. 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, 95% of dry cargo transportation during 2018 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. The future stability of the Azerbaijan economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government as well as crude oil prices and stability of Azerbaijani Manat.

The Azerbaijan economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani Manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On 6 December 2016 President of the Republic of Azerbaijan approved *Strategic Road Maps for the National Economy and Main Economic Sectors of Azerbaijan*. The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

Furthermore, during 2018 the government continued tight monetary policy as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy is expected to continue in 2019 with the aim of maintaining macroeconomic stability.

The Group's management is monitoring economic 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.

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

## **25. Contingencies, commitments and operating risks (continued)**

### **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 damages.

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. 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.

## **26. Events after the reporting date**

On 30 January 2020, the World Health Organization (WHO) declared the coronavirus outbreak a "Public Health Emergency of International Concern". Subsequent to year-end there has been increased volatility in the global financial and commodity markets. Currently, Azerbaijani health authorities are taking necessary precautional measures. Management of the Group will further monitor possible effects of the outbreak on the Group's activities.