

**"Azerbaijan Caspian Shipping"
Closed Joint Stock Company**

Consolidated financial statements

*For the year ended 31 December 2021
with independent auditor's report*

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Independent auditor's report

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Independent auditor's report

To Management and Supervisory Board 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 2021, 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 2021 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 audit committee 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.

Audit committee is 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 audit committee, 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.

25 April 2022

Baku, Azerbaijan

Consolidated statement of financial position

As at 31 December 2021

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

	Notes	31 December 2021	31 December 2020 (Reclassified*)	31 December 2019 (Reclassified*)
Assets				
Non-current assets				
Vessels, property, plant and equipment	13	951,125	941,838	883,879
Intangible assets		4,876	5,205	5,701
Right-of-use asset	14	11,441	2,286	2,467
Long-term prepayments	9	4,001	–	3,570
Total non-current assets		971,443	949,329	895,617
Current assets				
Cash and cash equivalents	6	6,312	4,743	3,087
Restricted cash	6	98	99	54
Trade and other receivables	7	243,171	241,333	248,212
Taxes receivable	8	14,670	15,043	10,550
Short-term prepayments	9	9,600	7,212	13,330
Inventories	10	45,914	45,571	41,416
Total current assets		319,765	314,001	316,649
Total assets		1,291,208	1,263,330	1,212,266
Equity				
Share capital	15	440,051	440,051	440,051
Additional paid-in capital	15	99,100	90,000	80,000
Retained earnings		549,098	502,306	457,263
Total equity		1,088,249	1,032,357	977,314
Liabilities				
Non-current liabilities				
Deferred tax liabilities	20	26,848	25,634	21,167
Long-term loans	12	8,469	12,727	17,172
Lease liability	14	9,200	–	–
Other non-current liability	11	5,576	6,332	5,911
Total non-current liabilities		50,093	44,693	44,250
Current liabilities				
Trade and other payables	11	69,416	113,389	96,747
Taxes payable	19	56,373	36,946	20,600
Short-term loans and current portion of long-term loans	12	4,553	19,325	60,752
Lease liability	14	13,824	13,204	10,509
Contract liabilities		8,700	3,416	2,094
Total current liabilities		152,866	186,280	190,702
Total liabilities		202,959	230,973	234,952
Total equity and liabilities		1,291,208	1,263,330	1,212,266

* Certain amounts shown here do not correspond to the 2020 and 2019 Financial Statements and reflect reclassifications made as detailed in Note 2.

Signed and authorized for release on behalf of the Group on 25 April 2022.

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 2021***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)*

	Notes	2021	2020
Revenue	16	459,133	421,049
Cost of sales	17	(306,069)	(259,559)
Gross profit		153,064	161,490
General and administrative expenses	17	(39,962)	(40,860)
Social expenses	17	(7,124)	(12,542)
Other operating income	21	21,757	19,602
Other operating expenses	17	(58,628)	(61,369)
(Loss)/gain on disposal of vessels, property, plant and equipment and intangible assets		(740)	71
Losses on disposal of subsidiaries		-	(559)
Foreign exchange loss		(77)	(1,951)
Operating profit		68,290	63,882
Finance costs		(1,735)	(2,680)
Profit before income tax		66,555	61,202
Income tax expense	20	(14,763)	(16,159)
Profit for the year		51,792	45,043
Other comprehensive income for the year		-	-
Total comprehensive income for the year		51,792	45,043

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

Consolidated statement of changes in equity**For the year ended 31 December 2021***(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)*

	Share capital	Additional paid-in capital	Retained earnings	Total
Balance at 1 January 2020	440,051	80,000	457,263	977,314
Total comprehensive income for the year	-	-	45,043	45,043
Increase in additional paid-in capital (Note 15)	-	10,000	-	10,000
Dividends	-	-	-	-
Balance at 31 December 2020	440,051	90,000	502,306	1,032,357
Total comprehensive income for the year	-	-	51,792	51,792
Increase in additional paid-in capital (Note 15)	-	9,100	-	9,100
Dividends	-	-	(5,000)	(5,000)
Balance at 31 December 2021	440,051	99,100	549,098	1,088,249

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

Consolidated statement of cash flows

For the year ended 31 December 2021

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

	Notes	2021	2020 (Reclassified*)
Cash flows from operating activities			
Profit before income tax		66,555	61,202
<i>Adjustments for:</i>			
Depreciation of vessels, property, plant and equipment and right-of-use assets	13, 14	81,095	74,446
Amortisation and impairment of intangible assets	17	818	807
Expected credit losses reversal	17	(7,212)	-
Provision of inventories	17	6,171	-
Foreign exchange differences		221	(590)
Loss on disposal of vessels, property, plant and equipment and intangible assets		740	-
Finance costs		1,735	2,680
Loss on disposal of subsidiary		-	559
Operating cash flows before working capital changes		150,123	139,104
Decrease in trade and other receivables		5,484	7,579
Increase in inventories		(6,514)	(4,155)
(Increase)/decrease in prepayments		(6,389)	13,258
Decrease/(increase) in taxes receivable		373	(4,493)
Decrease/(increase) in restricted cash		1	(45)
(Decrease)/increase in trade and other payables		(10,604)	6,603
(Decrease)/increase in other non-current liability		(756)	421
Increase in contract liabilities		5,283	1,322
Increase in taxes payable		12,288	22,911
Cash generated from operations		149,289	182,505
Income taxes paid	19, 20	(6,409)	(18,236)
Interest paid		(884)	(1,669)
Net cash flows from operating activities		141,996	162,600
Cash flows from investing activities			
Purchase of vessels, property, plant and equipment		(121,794)	(123,406)
Purchase of intangible assets		(1,229)	(333)
Disposal of Sailor Polyclinic		-	(6)
Net cash flows used in investing activities		(123,023)	(123,745)
Cash flows from financing activities			
Proceeds from short-term loans	12	-	6,000
Repayment of long-term loans	12	(4,235)	(4,235)
Repayment of short-term loans	12	(14,100)	(48,042)
Dividend paid to shareholders		(5,000)	-
Increase in additional paid-in capital	15	9,100	10,000
Payment of lease liability		(2,248)	-
Net cash flow used in financing activities		(16,483)	(36,277)
Net increase in cash and cash equivalents		2,490	2,578
Net foreign exchange difference		(921)	(922)
Cash and cash equivalents at the beginning of the year	6	4,743	3,087
Cash and cash equivalents at the end of the year		6,312	4,743

* Certain amounts shown here do not correspond to the 2020 Financial Statements and reflect reclassifications made as detailed in Note 2.

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 management of the state-owned shipping companies.

The consolidated financial statements of the Company include the following subsidiaries:

Name	% equity interest	
	2021	2020
Azerbaijan Caspian Shipping CJSC	100	100
Azerbaijan State Marine Academy	100	100
Caspian Sea Transport Project Research and Scientific Investigation Institute	100	100
Azerbaijan Marine College	100	100
Danizchi Housing Cooperative	96	96
ASCO Logistics LLC	100	100
ASCO Dry Ship Management Inc.	100	100
ASCO Tankers Ship Management Inc.	100	100
Yacht Club LLC	100	100
ASCO Security LLC	100	100
Danizchi Repair-Construction LLC	100	100
ASCO Transportation LLC	100	100

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 entities providing logistics services, maritime education, implementation of repair, construction, installation and design works with near to 7,039 of full-time employees. The Group is 100 per cent owned by the Government of the Republic of Azerbaijan (the "Government").

In accordance with the Decree of the President of the Republic of Azerbaijan dated 7 August 2020, a public legal entity, the Azerbaijan Investment Holding (hereinafter, "AIH") was established with the need to deepen structural reforms in order to improve the management system of state-owned enterprises, increase the efficiency and transparency of their activities, as well as their complete rehabilitation by optimizing costs and risks. The management of the number of state-owned companies and enterprises, including the Group was transferred to the management of the AIH.

On 11 February 2021 the President of the Republic of Azerbaijan signed amendments to the decree dated 10 January 2014 *On the Organization of the Activities of the Azerbaijan Caspian Shipping Closed Joint-Stock Company* to define responsibilities and duties of AIH in respect of the Group.

On 22 February 2021 the President of the Republic of Azerbaijan signed a decree approving composition of the Supervisory Board of the "Azerbaijan Caspian Shipping" CJSC consisting of a Chairman and 4 members. Supervisory Board members represent Ministry of Finance of the Republic of Azerbaijan, Ministry of Transportation, Communications and High Technologies of the Republic of Azerbaijan, State Service for Property Issues under the Ministry of Economy of the Republic of Azerbaijan and State Oil Company of the Azerbaijan Republic.

The registered address of the Group is Neftchilar Avenue 2, Baku, Azerbaijan.

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

2. Basis of preparation and significant accounting policies

Basis of preparation

The Group's consolidated financial statements 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 of Azerbaijani Manats ("AZN"), except when 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 2021.

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.

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.

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

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

Current versus non-current classification (continued)

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.

Foreign currency translation

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

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.

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

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

Foreign currency translation (continued)

At 31 December 2021 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000, EUR 1 = AZN 1.9265, RUB 1 = AZN 0.0229, TRY 1 = AZN 0.1329 (31 December 2020: USD 1 = AZN 1.7000, EUR 1 = AZN 2.0890, RUB 1 = AZN 0.0231, TRY 1 = AZN 0.2305).

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.

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.

(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)

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. 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.

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.

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

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

Financial assets (continued)

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.

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.

(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 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.

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.

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

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

Financial assets (continued)

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 financial assets other than trade receivables and contract assets, the Group applies general approach in calculating ECLs. 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.

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.

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

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

Financial liabilities (continued)

Loans, borrowings and payables

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.

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.

(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

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.

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.

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***2. Basis of preparation and significant accounting policies (continued)****Leases (continued)****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, machinery and vessels	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.

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.

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

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

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.

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.

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

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

Contributions by the Government

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

Value-added tax

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

VAT payable

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

VAT recoverable

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

Revenue recognition

The Group's revenue is mainly generated through sales of offshore services (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.

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

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

Revenue recognition (continued)

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.

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.

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.

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

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

Corporate income taxes (continued)

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.

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.

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.

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

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

Reclassifications

When preparing the financial statements as of and for the year ended 31 December 2021, the Group made following reclassifications:

- 1) In prior reporting periods, the Group aggregated the short-term and long-term portion of liabilities for disability benefit payments and unused vacation within current and non-current provisions. In current year the Group decided to present these liabilities within trade and other payables and other non-current liabilities. In addition, the Group made certain reclassifications within operating cash flows section of the statement of cash flows related to that reclassification.
- 2) In prior reporting periods, the Group accounted assets which will be used for capital repairs of vessels as "inventories" on the face of the statement of financial position. In current year the Group decided to present these assets as construction in progress (CIP) within Vessels, property, plant and equipment line item. In addition, the Group reclassified cash paid in relation to these capital repairs from operating cash flows to investing cash flows as appropriate.
- 3) In prior reporting period, the Group presented cash flows in amount of AZN 58,612 related to the acquisition of property plant and equipment within operating cash flows. In current year, the Group reclassified this amount into investing cash flows.

The respective reclassifications have been made to the line items presented in the consolidated statement of financial position as at 31 December 2020 and 31 December 2019 and in the consolidated statement of cash flows for the year ended 31 December 2020. The reclassifications have no effect on the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity for the period ended 31 December 2020. The reclassifications made are presented below:

Consolidated statement of financial position as at 31 December 2020

	As reported	Reclassification	As reclassified
Assets			
Current assets			
Inventories	89,546	(43,975)	45,571
Total current assets	357,976	(43,975)	314,001
Non-current assets			
Vessels, property, plant and equipment	897,863	43,975	941,838
Total non-current assets	905,354	43,975	949,329
Total assets	1,263,330	-	1,263,330
Liabilities			
Current liabilities			
Provisions	10,667	(10,667)	-
Trade and other payables	102,722	10,667	113,389
Total current liabilities	186,280	-	186,280
Non-current liabilities			
Non-current provisions	6,332	(6,332)	-
Other non-current liability	-	6,332	6,332
Total non-current liabilities	44,693	-	44,693
Total liabilities	230,973	-	230,973

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***2. Basis of preparation and significant accounting policies (continued)****Reclassifications (continued)****Consolidated statement of cash flows for the period ended 31 December 2020**

	As reported	Reclassification	As reclassified
Cash flows from operating activities			
Increase in inventories	(3,912)	(243)	(4,155)
(Decrease)/increase in trade and other payables	(55,407)	62,010	6,603
(Decrease)/increase in other non-current liability	-	421	421
Decrease/(increase) in provision	3,819	(3,819)	-
Cash generated from operations	124,136	58,369	182,505
Net cash flows from operating activities	104,231	58,369	162,600
Cash flows from investing activities			
Purchase of vessels, property, plant and equipment	(65,037)	(58,369)	(123,406)
Net cash flows used in investing activities	(65,376)	(58,369)	(123,745)
Net increase in cash and cash equivalents	2,578	-	2,578

Consolidated statement of financial position as at 31 December 2019

	As reported	Reclassification	As reclassified
Assets			
Current assets			
Inventories	85,634	(44,218)	41,416
Total current assets	360,867	(44,218)	316,649
Non-current assets			
Vessels, property, plant and equipment	839,661	44,218	883,879
Total non-current assets	851,399	44,218	895,617
Total assets	1,212,266	-	1,212,266
Liabilities			
Current liabilities			
Provisions	7,269	(7,269)	-
Trade and other payables	89,478	7,269	96,747
Total current liabilities	190,702	-	190,702
Non-current liabilities			
Long-term provisions	5,911	(5,911)	-
Other non-current liability	-	5,911	5,911
Total non-current liabilities	44,250	-	44,250
Total liabilities	234,952	-	234,952

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.

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

3. Critical accounting estimates and judgements (continued)

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

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).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates 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 is disclosed in Note 7.

Recognition of deferred income tax assets

The net deferred tax assets represent income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits whose realisation is probable in the future management makes judgments and applies estimation based on expectations of future income that are believed to be reasonable under the circumstances.

Obligation for disability benefits

The Group records liability in accordance with Azerbaijan Labour Code and has an obligation to pay compensation for employees damaged at work. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Considering subjectivity of these provisions, there is uncertainty regarding both the amount and estimated timing of incurring such costs. The key assumptions used to measure the amount of the estimated disability benefit obligations and sensitivity analysis, are disclosed in Note 11.

Provision for impaired or obsolete inventory

The Group reviews and if required reduces the carrying value of inventories for the amount of obsolete, impaired and slow-moving inventories at each reporting date. Such amount is estimated individually and in aggregate based on the percentage thresholds applied to obsolete or slow-moving inventories depending on the level of damage and frequency of use.

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

3. Critical accounting estimates and judgements (continued)

Other 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.

The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management. If the recoverable amount is estimated based on fair value less costs to sell, the Group involves independent valuers to estimate recoverable amount of its non-financial assets.

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.

Leases

Significant judgement in determining the lease term of contracts with renewal options

The lessee and lessor need to determine whether a contract is a lease at inception of the lease. The inception date is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease. The underlying asset is the asset that is subject to a lease, for which the right to use that asset has been provided by a lessor to a lessee. The commencement date of the lease is the date on which the lessor makes an underlying asset available for use by a lessee.

The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

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

3. Critical accounting estimates and judgements (continued)

Leases (continued)

The Group determines the lease term as the non-cancellable period of the lease, together with both:

- ▶ Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- ▶ Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Purchase options are assessed in the same way as options to extend or terminate the lease. An option to purchase an underlying asset is economically similar to an option to extend the lease term for the remaining economic life of the underlying asset.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Incremental borrowing rate (IBR)

The Group cannot readily determine the interest rate implicit in lease, therefore it uses incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and makes certain entity-specific estimates.

4. Changes in accounting policies

New and amended standards and interpretations

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IFRS 16 – COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued *COVID-19 Related Rent Concessions* – amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application. Several other amendments effective since 1 January 2021 were applied but do not have an 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)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- ▶ A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- ▶ Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- ▶ Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

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: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ What is meant by a right to defer settlement;
- ▶ That a right to defer must exist at the end of the reporting period;
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3 (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. These amendments are not expected to have impact on the consolidated financial statements of the Group.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. These amendments are not expected to have impact on the consolidated financial statements of the Group.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

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

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

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

6. Cash and cash equivalents and restricted cash

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

	31 December 2021	31 December 2020
AZN denominated bank balances	2,720	3,958
USD denominated bank balances	3,422	698
Other currencies	170	87
VAT deposit account, AZN	98	99
Total cash and cash equivalents and restricted cash	6,410	4,842

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:

	31 December 2021	31 December 2020
Trade receivables	250,298	255,672
Less: ECL	(7,266)	(14,478)
Total trade receivables	243,032	241,194
Other receivables	139	139
Total trade and other receivables	243,171	241,333

Trade receivables are mainly represented by receivables from shipping, transportation of cargoes and other services provided to customers of the Group.

Set out below is the movement in the allowance for ECL of trade receivables:

	2021	2020
At 1 January	(14,478)	(14,478)
ECL reversal	7,212	-
At 31 December	(7,266)	(14,478)

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:

	31 December 2021	31 December 2020
Receivable from state budget	2,615	3,171
VAT recoverable	12,055	11,872
Total taxes receivable	14,670	15,043

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:

	31 December 2021	31 December 2020
Short-term prepayments for trade and services	9,600	7,212
Long-term prepayments for purchase of vessels	4,001	-
Total prepayments	13,601	7,212

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9. Prepayments (continued)

Prepayments as at 31 December 2021 and 31 December 2020 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.

10. Inventories

Inventories comprised the followings as at:

	31 December 2021	31 December 2020
Raw materials and spare parts	31,301	33,947
Fuel	7,220	4,888
Other	7,393	6,736
Total inventories	45,914	45,571

11. Trade and other payables and other non-current liabilities

Trade and other payables as at 31 December 2021 and 31 December 2020 represent amounts mainly due to suppliers for raw materials, spare parts and equipment and repair and maintenance services for vessels.

	31 December 2021	31 December 2020
Trade payables	49,977	95,125
Total financial payables	49,977	95,125
Payable to employees	19,439	18,264
Total trade and other payables	69,416	113,389

Financial payables in amount of AZN 49,157 (31 December 2020: AZN 84,371) are denominated in foreign currencies, mainly in USD and EUR.

As at 31 December 2021, current portion of liabilities for disability benefit payments in the amount of AZN 1,018 (31 December 2020: AZN 973) was included in payables to employees. Non-current portion of liabilities for disability benefit payments in the amount of AZN 5,576 (31 December 2020: AZN 6,332) was included in other non-current liability.

Liabilities for disability benefit payments:

	2021	2020
Carrying amount at 1 January	7,305	7,011
Utilisation	(2,152)	(1,639)
Unwinding of present value discount	395	484
Additions	566	790
Effect of change in estimates	480	659
Carrying amount at 31 December	6,594	7,305
<i>Of which:</i>		
Current	1,018	973
Non-current	5,576	6,332

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***11. Trade and other payables and other non-current liabilities (continued)**

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 6.42% and 5.42% as at 31 December 2021 and 31 December 2020, respectively. For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 70 and 76 for men and women, respectively. If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 451 lower / AZN 524 higher, respectively.

12. Loans

At 31 December 2021 and 31 December 2020, short-term loans of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Balance as at 31 December 2021	Balance as at 31 December 2020
Short-term borrowings in AZN	4.5%	December 2022	318	15,090
Current portion of long-term borrowings			4,235	4,235
Total short-term loans and current portion of long-term loans			4,553	19,325

As at 31 December 2021 and 31 December 2020, long-term loans of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Balance as at 31 December 2021		Balance as at 31 December 2020	
			Non-current portion	Current portion	Non-current portion	Current portion
AZN 42 million	3.65%	August 2024	8,469	4,235	12,727	4,235
Total long-term loans			8,469	4,235	12,727	4,235

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13. Vessels, property, plant and equipment

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

Cost	Buildings and constructions	Machinery and equipment	Vessels and port facilities	Vehicles, furniture and other	Construction in progress	Total
At 1 January 2020	102,073	32,179	1,248,837	26,546	283,392	1,693,027
Additions	-	6	1,762	4,336	124,937	131,041
Disposals	-	(1)	(180)	(1,485)	-	(1,666)
Transfers	2,576	689	170,517	1,383	(175,165)	-
At 31 December 2020	104,649	32,873	1,420,936	30,780	233,164	1,822,402
Additions	45	1,056	78	5,241	82,120	88,540
Disposals	(12)	(294)	(27,673)	(729)	(83)	(28,791)
Transfers	41,876	2	80,346	837	(123,061)	-
At 31 December 2021	146,558	33,637	1,473,687	36,129	192,140	1,882,151
Depreciation						
At 1 January 2020	(26,017)	(19,807)	(743,389)	(19,935)	-	(809,148)
Depreciation charge for the year	(4,992)	(3,035)	(61,402)	(2,731)	-	(72,160)
Disposals	-	1	-	743	-	744
At 31 December 2020	(31,009)	(22,841)	(804,791)	(21,923)	-	(880,564)
Depreciation charge for the year	(5,125)	(3,103)	(68,132)	(2,449)	-	(78,809)
Disposals	2	288	27,599	458	-	28,347
At 31 December 2021	(36,132)	(25,656)	(845,324)	(23,914)	-	(931,026)
Net book value						
At 1 January 2020	76,056	12,372	505,448	6,611	283,392	883,879
At 31 December 2020	73,640	10,032	616,145	8,857	233,164	941,838
At 31 December 2021	110,426	7,981	628,363	12,215	192,140	951,125

*(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 tankers operating in Black Sea region. The contracts for the tankers are under bareboat-charter agreements. The Group Management has long-term intentions regarding those vessels, five years based on best estimates of the Management as of reporting date, considering long-term strategy of the Group in respect of extension of operations in Black Sea. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

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

	Vessels and port facilities
Right-of-use assets	
At 1 January 2020	2,467
Additions	2,105
Depreciation expense	(2,286)
At 1 January 2021	2,286
Additions	11,441
Depreciation expense	(2,286)
At 31 December 2021	11,441

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

	2021	2020
Lease liabilities		
At 1 January	13,204	10,509
The effect of modification in payment schedule	11,441	-
Additions	-	2,105
Accretion of interest	628	590
Payment	(2,249)	-
At 31 December	23,024	13,204
<i>Of which:</i>		
Current	13,824	13,204
Non-current	9,200	-

15. Share capital and additional paid-in capital**Share capital**

The Group includes fourteen separate legal entities (2020: fourteen entities) each possessing their own share capital.

As at 31 December 2021 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 2021 the Group's additional paid-in capital increased by AZN 9,100 (2020: AZN 10,000) of which full amount was contributed as cash.

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***16. Analysis of revenue by categories**

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

	2021	2020
Lease revenue	67,783	77,808
Non-lease revenue	391,350	343,241
Total revenue	459,133	421,049

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

	2021	2020
Offshore support services	201,700	163,463
Freight and passenger transportation	179,966	169,008
Logistics services	3,705	3,520
Other revenue	5,979	7,250
Total non-lease revenue	391,350	343,241

17. Analysis of expenses by nature

For the year ended 31 December 2021 and 31 December 2020 cost of sales, social, general and administrative expenses and other operating expenses comprised the followings:

	2021	2020
Wages, salaries and social security costs	146,773	141,137
Depreciation of vessels, property, plant and equipment, leased assets	81,095	74,446
Raw materials and consumables used	72,127	48,331
Port charges	30,803	29,626
Repairs and maintenance expenses	21,973	17,012
Taxes other than on income	12,458	5,110
Food expenses	11,429	11,314
Daily travelling expenses of the crew of marine transports	8,697	7,408
Insurance expenses	6,697	7,565
Provision of inventories	6,171	-
Utilities expenses	4,784	4,947
Logistics expenses	3,427	4,522
Vessels registration costs	2,851	3,069
Agency and brokerage costs	2,412	2,974
Sponsorship expenses	938	2,290
Provision of social housing	934	3,258
Amortisation of intangible assets	818	807
Reimbursable expenses	660	519
Rent expenses	422	1,124
Business trip expenses	247	196
ECL reversal	(7,212)	-
Other	3,279	8,675
Total cost of sales, social, general, administrative and other operating expenses	411,783	374,330

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***18. Balances and transactions with related parties****Key management compensation**

Key management of the Group includes the Chairman of the Group and its five Deputy Chairman. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of the Group in accordance with the approved payroll matrix. During 2021 compensation of key management personnel totalled to AZN 634 (2020: AZN 465).

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

At 31 December 2021 and 31 December 2020, the outstanding balances with related parties were as follows:

	Government and entities under government control 31 December 2021	Government and entities under government control 31 December 2020
Trade and other receivables	221,524	243,083
ECL	(4,844)	(12,386)
Short-term prepayments	936	251
Long-term prepayment	1,826	-
Cash and cash equivalents and restricted cash	4,606	4,061
Long-term loans	(8,469)	(12,727)
Short-term loans and current portion of long-term loans	(4,553)	(19,325)
Trade and other payables	(26,896)	(45,302)

The transactions with related parties for the year ended 31 December 2021 and 31 December 2020 were as follows:

	Government and entities under government control 2021	Government and entities under government control 2020
Freight and passenger transportation services	44,777	31,588
Offshore support services	180,292	183,562
Other operating income	5,351	4,136
Repairs and maintenance expenses	(459)	(967)
Utilities expense	(2,108)	(2,574)
Port expenses	(4,458)	(6,283)
Bank charges	-	(100)
Finance cost	(579)	(1,648)
Other expenses	(5,250)	(4,922)

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.

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

19. Taxes payable

Taxes payable comprises the following at:

	31 December 2021	31 December 2020
VAT payable	3,104	4,150
Accrued VAT	34,014	29,636
Social security contributions	3,607	2,687
Current income tax payable	7,140	-
Tax penalties and charges	6,233	-
Other	2,275	473
Total taxes payable	56,373	36,946

Based on Article 166.1 of The Tax Code of the Republic of Azerbaijan, the time of a taxable operation shall be the time of payments for goods, work and services provided, effective 1 January 2021. Accrued VAT amount represents VAT amount for the unpaid operations of goods, work and services provided.

20. Income taxes

Income tax expense comprises the following:

	2021	2020
Current income tax expense	13,549	11,692
Deferred tax charge	1,214	4,467
Income tax expense for the year ended 31 December	14,763	16,159

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

	2021	2020
Profit before tax	(66,555)	(61,202)
Theoretical tax charge at statutory rate of 20 per cent	13,311	12,240
Tax effect of non-deductible expenses	6,088	4,220
Recognition of previously unrecognized deferred tax asset	(9,645)	-
Unrecognised temporary differences	882	101
Loss which is exempt from taxation	2,451	-
Other	1,676	(402)
Income tax expense for the year ended 31 December 2021	14,763	16,159

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

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***20. Income taxes (continued)**

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 2020	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2021
Tax effect of deductible/(taxable) temporary differences			
Right-of-use asset	457	1,831	2,288
Vessels, property, plant and equipment	34,795	(648)	34,147
Inventories	(1,194)	(50)	(1,244)
Trade and other receivables, net	(3,548)	1,323	(2,225)
Long-term and short-term provisions	(3,342)	3,330	(12)
Current lease liability	(2,641)	(124)	(2,765)
Trade payables and accrued liabilities	1,193	(2,907)	(1,714)
Current and non-current prepayments and advances	(86)	73	(13)
Non-current portion of long-term loans	-	226	226
Non-current lease liability	-	(1,840)	(1,840)
Deferred tax liabilities	25,634	1,214	26,848

	31 December 2019	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2020
Tax effect of deductible/(taxable) temporary differences			
Right-of-use asset	493	(36)	457
Vessels, property, plant and equipment	28,591	6,204	34,795
Current and non-current prepayments	150	(236)	(86)
Trade payables and accrued liabilities	250	943	1,193
Non-current and current provisions	(2,736)	(606)	(3,342)
Trade and other receivables, net	(3,381)	(167)	(3,548)
Inventories	(96)	(1,098)	(1,194)
Current lease liability	(2,104)	(537)	(2,641)
Deferred tax liabilities (net)	21,167	4,467	25,634

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***21. Other operating income**

Other operating income comprised of the following:

	2021	2020
Sales of other goods and services rendered	2,939	2,108
Income from alliance agreement	10,285	11,000
Other	8,533	6,494
Total other operating income from contracts	21,757	19,602

22. 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, 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 2020 and 2021.

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

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***22. 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 2021 post-tax profit	Change in rates (+/-)	Effect on 2020 post-tax profit
USD/AZN	20.00%/ -3.00%	3,091/(464)	20.00%/ -3.00%	(3,998)/600
EUR/AZN	21.00%/ -9.00%	(203)/87	22.00%/ -10.00%	(4,016)/1,823
TRY/AZN	15.00%/ -20.00%	21/(28)	15.00%/ -17.00%	(10)/11

(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 2020 and 31 December 2021 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 2021 was AZN 4,508 (2020: AZN 3,962). 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 2021	31 December 2020
Cash and cash equivalents (Note 6)	6,312	4,743
Trade and other receivables, net (Note 7)	243,171	241,333
Total maximum exposure to credit risk	249,483	246,076

Trade and other receivables in amount of AZN 61,351 (31 December 2020: AZN 52,124) are denominated in foreign currencies, mainly in USD and EUR.

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***22. 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 2021 and 31 December 2020 was determined as follows for trade receivables from customers:

31 December 2021	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
Gross carrying amount of trade receivables	79,003	18,769	18,732	127,915	5,879	250,298
Less provision for ECL	(2,068)	(967)	(922)	(2,329)	(980)	(7,266)
Net trade receivables	76,935	17,802	17,810	125,586	4,899	243,032

31 December 2020	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
Gross carrying amount of trade receivables	30,817	23,459	16,747	149,304	35,345	255,672
Less provision for ECL	(4,711)	(1,408)	(1,296)	(6,024)	(1,039)	(14,478)
Net trade receivables	26,106	22,051	15,451	143,280	34,306	241,194

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.

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

22. Risk management (continued)

Liquidity risk (continued)

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

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

The maturity analysis of financial liabilities as at 31 December 2021 and 31 December 2020 was as follows:

At 31 December 2021	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	49,977	–	–	–	49,977
Loans		2,961	3,424	7,152	–	13,537
Total undiscounted financial liabilities		52,938	3,424	7,152	–	63,514

At 31 December 2020	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	95,125	–	–	–	95,125
Loans		4,825	15,966	12,821	–	33,612
Total undiscounted financial liabilities		99,950	15,966	12,821	–	128,737

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 2021	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 6)	6,312	6,312
Total financial receivables (Note 7)	243,032	243,032
Total financial assets	249,344	249,344
Total financial payables (Note 11)	49,977	49,977
Short-term loans and current portion of long-term loans (Note 12)	4,553	4,553
Long-term loans (Note 12)	8,469	7,531
Total financial liabilities	62,999	62,061

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***22. Risk management (continued)****Fair value of financial instruments (continued)**

	31 December 2020	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 6)	4,743	4,872
Total financial receivables (Note 7)	241,194	241,194
Total financial assets	245,937	246,066
Total financial payables (Note 11)	95,125	95,125
Short-term loans and current portion of long-term loans (Note 12)	19,325	19,299
Long-term loans (Note 12)	12,727	12,728
Total financial liabilities	127,177	127,152

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

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

Capital management

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

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

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

	Notes	31 December 2021	31 December 2020
Non-current portion of long-term loans	12	8,469	12,727
Short-term loans and current portion of long-term loans	12	4,553	19,325
Trade and other payables and accrued liabilities	11	69,416	113,389
Less: cash and cash equivalents	6	(6,312)	(4,743)
Net debt		76,126	140,698
Equity		1,088,249	1,032,357
Capital and net debt		1,164,375	1,173,055
Gearing ratio		7%	12%

*(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)***23. Changes in liabilities arising from financing activities**

	1 January 2021	Cash flows	Finance cost	Foreign exchange movement	Other	31 December 2021
Short-term loans and current portion of long-term loans	19,325	(18,636)	152	(523)	4,235	4,553
Long-term loans	12,727	(583)	560	-	(4,235)	8,469
Lease liabilities	13,204	(2,248)	627	-	11,441	23,024
Total liabilities from financing activities	45,256	(21,467)	1,339	(523)	11,441	36,046

	1 January 2020	Cash flows	Finance cost	Foreign exchange movement	Other	31 December 2020
Short-term loans and current portion of long-term loans	60,752	(47,946)	2,357	(73)	4,235	19,325
Long-term loans	17,172	-	398	(608)	(4,235)	12,727
Lease liabilities	10,509	-	590	-	2,105	13,204
Total liabilities from financing activities	88,433	(47,946)	3,345	(681)	2,105	45,256

The "Other" column of short-term and long-term loans is represented by classification of current portion of AZN 4,235 (2020: AZN 4,235) of long-term loans as short-term. The "Other" column of lease liabilities includes the amount of AZN 11,441 (2020: AZN 2,105) which is the effect of modification in lease payment schedule.

During 2021, there was significant non-cash capital expenditures in the amount of AZN 19,686 (2020: AZN 38,291).

24. Contingencies, commitments and operating risks**Operating environment**

The Group's operations are mainly conducted in the Caspian Sea region. Besides this, 89% of dry cargo transportation and 29% of liquid cargo transportation during 2021 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.

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

24. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

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.

COVID-19 pandemic

Following the rapid spread of COVID-19 pandemic in 2020, which continued in 2021, many governments, including the Government of the Republic of Azerbaijan have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries. In 2021, these measures resulted in a gradual reduction of coronavirus cases and elimination of most lockdown measures starting from January. This, in turn, led to increased transportation and demand for goods and services.

The Group continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

During 2021, the CBAR refinancing rate was increased from 6.25% to 7.25%. Finally, significant foreign currency sales were made to maintain the stability of the Azerbaijani Manat, which was kept flat at 1.7000 for 1 USD throughout the year.

Legal proceedings

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

Tax legislation

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

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

Environmental matters

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

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

24. Contingencies, commitments and operating risks (continued)

Environmental matters (continued)

The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the Group to take future action to remediate the effects on the environment of the Group's operations. Such contingencies may exist for various waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. 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.

25. Events after the reporting date

Conflict between the Russia and Ukraine

Subsequent to year end, in February 2022, due to the conflict between the Russian Federation and Ukraine, numerous sanctions have been announced by majority of western countries against the Russian Federation. These sanctions are targeted to have a negative economic impact on the Russian Federation. As of the date of these financial statements, the Group's total receivable from Russian companies amounted to AZN 4,655.

The Group's management is monitoring the economic situation in the current environment and taking precautionary measures it considers necessary in order to support the liquidity of the Group's assets in the foreseeable future.