

SOCAR TRADING (UK) LIMITED

(Registered Number: 09430392)

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31st December 2018



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STRATEGIC REPORT

Principal Activities, Business Environment, Strategy and Future Outlook

The Company was incorporated on 9th February 2015 and is a wholly-owned subsidiary of SOCAR Trading SA, a company incorporated in Switzerland. The parent company and ultimate controlling party is the State Oil Company of the Azerbaijan Republic.

During the year the Company's principal activity and business objective continued to be that of trading energy-related derivatives and physical crude oil in the international energy markets, principally the European crude oil markets.

The activities of the Company's subsidiary are set out in note 9 to the financial statements.

The profit after tax for the year was \$1,493,676 (2017: loss \$21,267,000).

Based on the Board's and Management's assessment of the Company's financial position and the principal risks and uncertainties set out in this report below, the Directors are satisfied that the Company has adequate resources and support from the immediate parent company to meet its future obligations.

Principal Risks and Uncertainties

Risks are reviewed by Management and the Board and appropriate processes are put in place to monitor and mitigate them. The management and operation of the business were subject to a number of risks which are set out below.

The Company entered into a variety of commodity-related contractual commitments with varying terms and durations, principally forward purchase and sale agreements in the normal course of business. These transactions generally required future settlement.

The Company records all commodity-related contractual commitments at market value. The use of contractual commitments with off-balance sheet risk may expose the Company to both market risk and credit risk in excess of amounts recorded in the financial statements. These risks are discussed in more detail below and in the notes to these financial statements.

Market Risk

Market risk is the potential loss the Company may incur as a result of changes in the market value of a financial instrument or portfolio of financial instruments. The Company's exposure to market risk is determined by a number of factors, including the size, duration, composition and diversification of positions held as well as market volatility and liquidity. Risk exposures are managed through diversification, by controlling position sizes and by entering into offsetting positions in accordance with the controls and governance of its risk control policy.

Credit Risk

The Company regularly transacts business with a broad range of entities including independent and government-owned commodity producers, a wide variety of end-users, trading companies and financial institutions. The Company has established controls to monitor the creditworthiness of counterparties, as well as the quality of credit support, and uses netting and credit support agreements whenever possible to mitigate its exposure to counterparty credit risk.

Concentrations of Credit Risk

Concentrations of credit risk from financial instruments including contractual commitments exist when groups of issuers or counterparties have similar business characteristics or are engaged in like activities that would cause their ability to meet their contractual commitments to be adversely affected, in a similar manner, by changes in the economy or other market conditions. The Company, in conjunction with its parent company, monitors counterparty and counterparty group credit risk concentrations on both a standalone and a group-wide basis.

STRATEGIC REPORT (CONTINUED)

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. It includes the reputation and franchise risk associated with business practices or market conduct that the Company undertakes.

Operational risk is inherent in the Company's business activities and is managed through a framework of internal controls that are subject to both regular internal testing and independent review by Risk Control.

Liquidity Risk Management

Liquidity management within the SOCAR Trading SA group has two principal purposes. Firstly, to ensure that sufficient funds are available to meet all contractual commitments as they fall due and, secondly, to ensure there is sufficient funding to withstand stressed market conditions arising from an extreme event.

The Company maintains adequate funding lines with its parent company and banks to ensure sufficient liquidity to meet all financial requirements on a timely basis.

Regulation

Changes in the regulatory and legislative environment could increase the cost of compliance, affect the Company's financial resources and limit its access to new business opportunities.

Ethical misconduct and non-compliance

Ethical misconduct or breaches of applicable laws by the Company's businesses or its employees could be damaging to its reputation.

Key Performance Indicators

The key financial and performance indicators during the year were as follows:

	2018	2017
	<u>US\$000</u>	<u>US\$000</u>
Net Trading Gain (Loss)	23,987	(7,257)
Operating Profit (Loss)	6,908	(19,795)
Profit (Loss) for the year	1,494	(21,267)
Shareholder's equity	(13,935)	(15,429)
Quick ratio*	48.9%	71.7%
Return on assets **	0.4%	(2.1%)

* Quick ratio is defined as current assets, excluding stock and debtors receivable after one year, expressed as a percentage of current liabilities.

** Return on assets is defined as net profit divided by total balance sheet (total assets).

BY ORDER OF THE BOARD



Emil Bayramli
2 St James's Market
London
SW1Y 4AH

24th May 2019

DIRECTOR'S REPORT

The Directors present their report and the financial statements for the year ended 31st December 2018.

Results and Dividends

The net profit for the year was \$1,493,676 (2017: loss \$21,267,000).

The Company has not declared any dividends during the year. The directors do not propose the payment of a dividend.

Directors

The directors who held office during the year and subsequent to the year ended 31st December 2018 were as follows:

Mariam Almaszade Prensilevich (appointed 21th August 2018)
Arzu Azimov (resigned 21st August 2018)
Emil Bayramli
David Fildes (resigned 21st August 2018)
Gary Middleditch (resigned 21st August 2018)
Vincent Mohy

Directors' indemnity

The Company's parent company has purchased insurance cover for the directors against certain liabilities in relation to the Company to the extent allowed under section 232 of the Companies Act 2006.

Financial instruments

In accordance with section 414C of the Companies Act 2006 the directors have included information regarding financial instruments as required by Schedule 7 (Part 1.6) of the Large and Medium Companies and Group Regulations 2008 in the Strategic Report under Principal Risks and Uncertainties.

Future developments

The directors intend to maintain management policies designed to ensure the Company remains financially stable and is able to take advantage of any opportunities for strategic development of the Company's business which may arise in the future.

It is the intention of the directors that the business of the Company will continue for the foreseeable future.

Going concern

The directors have a reasonable expectation that, given the continuing support of its parent and the letter of support provided by Socar Trading SA, the Company has adequate resources to continue in operational existence for the foreseeable future and the financial statements have therefore been prepared under the going concern basis.

Disclosure of information to auditor

In preparing these financial statements, each of the directors in office at the date of approval confirms the following:

- So far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware;
- Each director has taken all the steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

DIRECTOR'S REPORT (CONTINUED)

Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

BY ORDER OF THE BOARD



Emil Bayramli
2 St James's Market
London
SW1Y 4AH

24th May 2019

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOCAR TRADING (UK) LIMITED
FOR THE YEAR ENDED 31ST DECEMBER 2018**

Opinion

We have audited the financial statements of SOCAR Trading (UK) Limited for the year ended 31st December 2018 which comprise the Profit and Loss Account, the Statement of comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice). In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31st December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Natalia Moolman (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 May 2019

SOCAR TRADING (UK) LIMITED
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2018

in US\$000	Notes	2018	2017
Net Trading Gain (Loss)	3	23,987	(7,257)
Salaries and social security costs		(11,066)	(7,357)
General and administrative expenses	4	(6,013)	(5,181)
Operating Profit (Loss)		6,908	(19,795)
Interest payable and similar charges	5	(5,414)	(2,968)
Profit (Loss) before tax		1,494	(22,763)
Income tax credit (expense)	6	-	1,496
Profit (Loss) for the year		1,494	(21,267)

The accounting policies and explanatory notes on pages 11 to 28 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

There is no comprehensive income attributable to the shareholders of the Company other than the profit for the year.

SOCAR TRADING (UK) LIMITED
BALANCE SHEET

For the year ended 31 December 2018

in US\$000	Notes	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	7	648	1,080
Intangible assets	8	43	86
Investment in subsidiary	9	20,000	20,000
Total Non-current assets		20,691	21,166
Current assets			
Inventories	10	154,359	252,589
Receivables – amounts falling due:			
within one year	11	111,856	595,544
after one year	11	-	72,710
Other current financial assets	12	64,373	60,871
Cash and cash equivalents	13	4,395	3,577
Total current assets		334,983	985,291
TOTAL ASSETS		355,674	1,006,457
Non-current liabilities			
Other provisions	14	255	-
Total Non-current liabilities		255	-
Current liabilities			
Interest-bearing loans and borrowings	15	201,141	353,737
Payables	16	136,396	535,072
Other current financial liabilities	17	31,817	133,077
Total current liabilities		369,354	1,021,886
TOTAL LIABILITIES		369,609	1,021,886
Net Current Assets/(Liabilities)		(34,371)	(36,595)
Net Assets/(Liabilities)		(13,935)	(15,429)
SHAREHOLDERS' FUNDS			
Capital and reserves			
Called up share capital	21	158	158
Profit and loss account	22	(14,093)	(15,587)
Equity attributable to the owners of the Company		(13,935)	(15,429)

The accounting policies and explanatory notes on pages 11 to 28 form an integral part of the Financial Statements

SIGNED ON BEHALF OF THE BOARD


 Emil Bayramli
 Director


 Manam Almaszade
 Director
Registered Number: 09430392
24th May 2019

SOCAR TRADING (UK) LIMITED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

in US\$000	Issued share capital	Retained earnings	Total equity
As at 1 January 2018	158	(15,587)	(15,429)
Profit for the year	-	1,494	1,494
At 31 December 2018	158	(14,093)	(13,935)

For the year ended 31 December 2017

in US\$000	Issued share capital	Retained earnings	Total equity
As at 1 January 2017	158	5,680	5,838
Profit for the year	-	(21,267)	(21,267)
At 31 December 2017	158	(15,587)	(15,429)

The accounting policies and explanatory notes on pages 11 to 28 form an integral part of the Financial Statements.

FINANCIAL STATEMENTS NOTES TO THE FINANCIAL STATEMENTS

1. Compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)

The financial statements of SOCAR Trading (UK) Limited for the year ended 31 December 2018 were approved by the board of directors on 24th May 2019 and the balance sheet was signed on the board's behalf by Emil Bayramli and Mariam Almaszade.

SOCAR Trading (UK) Limited is a limited company incorporated in England and Wales. The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 (FRS 101) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 and the provisions of the Companies Act 2006.

2 Significant accounting policies, judgements, estimates and assumptions

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRS standards and interpretations as of 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The adoption of these new or amended standards and interpretations did not have a material impact on the financial position or performance of the Company, except for the following:

- IFRS 9 – Financial instruments supersedes IAS 39 “Financial Instruments: Recognition and Measurement” and covers classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. IFRS 9 modifies the classification and measurement of certain classes of financial assets and liabilities and required the Company to reassess classification of financial assets to three primary categories (amortised cost, fair value through profit and loss, fair value through other comprehensive income), reflecting the business model in which assets are managed and their cash flow characteristics. Financial liabilities continue to be measured at either fair value through profit and loss or amortised cost. In addition, IFRS 9 introduced an expected credit loss (“ECL”) impairment model, which means that anticipated as opposed to incurred credit losses are recognised resulting in earlier recognition of impairments. Changes in accounting policies resulting from IFRS 9 have been applied as at 1 January 2018. Consequently, no restatement of comparative information for prior year has been performed.
- IFRS 15 – Revenue from Contracts with Customers applies to revenue from contracts with customers and replaces all of the revenue standards and interpretations in IFRS. The standard outlines the principles an entity must apply to measure and recognise revenue and the related cash flows. The Company performed a comprehensive analysis of the impact of the new standard based on a review of the contractual terms of its principal revenue streams with the primary focus being to understand whether the timing and amount of revenue recognised could differ under IFRS 15. Changes in accounting policies resulting from IFRS 15 have been applied using the full retrospective method, with no restatement of comparative information for prior year in accordance with the practical expedient not to restate contracts that begin and end within the same annual reporting period or have been completed as at 1 January 2017. As the majority of the Company's revenue is derived from commodity sales, for which the point of recognition is dependent upon contract sales terms (Incoterms), the transfer of risks and rewards as defined by IAS 18 and the transfer of control as defined by IFRS 15 generally coincides with the fulfilment of performance obligations under the Incoterms at a point in time. As such, the adoption of IFRS 15 did not have any material impact in respect of timing and amount of revenue recognised by the Company and accordingly prior period amounts were not restated.

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early. When the adoption of the standard or

FINANCIAL STATEMENTS NOTES TO THE FINANCIAL STATEMENTS

2 Significant accounting policies, judgements, estimates and assumptions (continued)

interpretation is expected to have an impact on the financial position or performance of the Company, its impact is described below:

- IFRS 16 Leases. IFRS 16 was issued in January 2016 and specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date for annual reporting periods beginning on or after 1 January 2019.

Other new standards, interpretations and amendments to published standard that are not yet effective and not expected to have any material impact on the accounting policies, financial position or performance of the Company are:

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date will be announced later).
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective date for financial years beginning on or after 1 January 2019).
- Amendments to IFRS 9 Prepayments Features with Negative Compensation (effective for annual periods on or after 1 January 2019)

The significant accounting policies and critical accounting judgements, estimates and assumptions of the Company are set out below.

Basis of preparation

These financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention, modified to include the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The accounting policies set out below have been consistently applied to throughout the year.

The financial statements have been prepared in US Dollars, which is the functional currency of the Company and all values are rounded to the nearest thousand dollars, unless otherwise stated.

- (a) As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to the requirements of paragraphs 10(d), 10(f) and 39(c) of IAS 1 Presentation of Financial Statements;
- (b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present Comparative information in respect of:
- (i) paragraph 79(a)(iv) of IAS 1;
 - (c) the requirements of IAS 7 Statement of Cash Flows;
 - (d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
 - (e) the requirements of paragraph 17 and 18(a) of IAS 24 Related Party Disclosures; and
 - (f) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Critical accounting policies: use of judgements, estimates and assumptions

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual outcomes could differ from the estimates and assumptions used. The critical judgements and estimates

FINANCIAL STATEMENTS NOTES TO THE FINANCIAL STATEMENTS

2 Significant accounting policies, judgements, estimates and assumptions (continued)

that could have a significant impact on the results of the Company are set out below and should be read in conjunction with the information provided in the Notes to the financial statements:

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Fair value of inventory and physical contracts

Certain inventory and contracts for purchase and sale of physical inventory are valued at fair value. The value of such items is generally derived from active markets.

Trade receivables

Any allowance for doubtful receivables is established to adjust the value of trade receivables to their net recoverable amount. In determining this amount, management considers counterparty financial condition, availability of collateral, and the impact of specific market events on counterparties.

Going concern

The directors have a reasonable expectation that, given the continuing support of its parent and the letter of support provided by Socar Trading SA, the Company has adequate resources to continue in operational existence for the foreseeable future and the financial statements have therefore been prepared under the going concern basis.

Foreign currency translation

The financial statements are presented in United States Dollars, which is the Company's functional and reporting currency. Functional currency is the currency of the primary economic environment in which the Company operates.

Translation rules

- Transactions effected in foreign currencies and initially recorded in a currency other than the functional currency, are translated at the functional currency spot exchange rate at the date of the transaction.
- At the end of each reporting period, monetary items measured in a foreign currency are translated at the functional currency exchange rate ruling at the reporting date. All differences arising on the settlement or translation of monetary items are taken to profit or loss in the period in which they arise.
- At the end of each reporting period, non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the functional currency exchange rate at the date of the initial transaction or, if measured at fair value, at the date when fair value was determined.

Financial assets

Measurement

Financial assets are classified as either financial assets at amortised cost, at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVTOCI) depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset. Financial assets are initially recognised at fair value on the trade date, including, in the case of instruments not recorded at fair value through profit or loss, directly attributable transaction costs.

FINANCIAL STATEMENTS NOTES TO THE FINANCIAL STATEMENTS

2 Significant accounting policies, judgements, estimates and assumptions (continued)

Subsequent measurement

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

Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held 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 include trade receivables, margin calls and other receivables which are carried at amortised cost adjusted for any loss allowance.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. 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 effective interest rate method. The gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Financial assets at fair value through profit and loss

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial assets do not meet the amortised cost criteria
- The financial assets is designated at initial recognition

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, discounted trade receivables and listed equity investment are also classified as held for trading.

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.

Financial assets at fair value through OCI

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

- The financial asset is held 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. As of 31 December 2018, the fair value change to recognise in OCI are not material to the financial statements and as such are not disclosed in OCI.

Impairment of financial assets

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

will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

FINANCIAL STATEMENTS NOTES TO THE FINANCIAL STATEMENTS

2 Significant accounting policies, judgements, estimates and assumptions (continued)

The model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12-month expected credit losses (ECL); or
- Lifetime expected credit losses (ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. The Company uses formula which corresponds to the cash shortfalls that would occur in case of default, multiplied by the appropriate probability of default. In case there has been a significant increase in credit risk, the ECL will be recognized using lifetime probability of default.

For loans, the Company uses the 12-month expected credit losses model which is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date.

Corresponding expenses linked to ECL are booked into profit and loss within impairment of other receivables.

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short term deposits with banks and similar institutions, with an original maturity of three months or less.

Accrued income

Revenues associated with the sale of crude oil are recorded when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer.

When revenues are subject to a floating price formula as of the reporting date, the amount of accrued income is recorded based on the best estimate based on available market prices of the selling price as per the agreement between the Company and the buyer.

Inventories

Inventories held at fair value

Inventories relating to crude oil which are to be held for a short period after delivery for the purpose of generating a profit from short term fluctuations in price and that are readily convertible to cash are valued at fair value.

Fair value is determined with reference to market based information. Gains or losses resulting from variations in market prices are recorded in the profit and loss account.

Trade receivable and other receivables

Trade receivables include amounts of invoiced revenue, receivable from related and third parties. Trade receivables, which generally are due 30 days after the bill of lading date, are stated at cost less a provision for impairment losses, if necessary.

Other receivables mainly include VAT recoverable and rental deposits.

FINANCIAL STATEMENTS NOTES TO THE FINANCIAL STATEMENTS

2 Significant accounting policies, judgements, estimates and assumptions (continued)

Financial liabilities

Measurement

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

Subsequent measurement

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

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 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 Company 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.

Financial liabilities at amortised cost

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest (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.

Trade payables and other payables

Trade payables include amounts, which are normally settled 30 days after the date of bill of lading, and other payables are stated at cost.

Derecognition of financial liabilities

The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or have expired. On derecognition of a financial asset/financial liability in its entirety, the difference between the carrying amount of the financial asset/financial liability and the sum of the consideration received and receivable/paid and payable is recognised in profit and loss.

On derecognition of equity investments designated and measured at FVTOCI, the cumulative gain or loss recognised in other comprehensive income is reclassified directly to retained earnings.

Derivatives financial instruments

The Company utilises derivative financial instruments (shown separately in the consolidated statement of financial position under other financial assets and other financial liabilities) to economically hedge its primary market risk exposures, primarily risks related to commodity price movements, and to a lesser extent, related to exposure to foreign currency exchange and interest rate movements.

Derivatives, including separated embedded derivatives, are classified as held for trading at fair values and related gains and losses are recorded in net in profit or loss within cost of sales unless they are designated as effective hedging instruments as defined by IFRS 9. The Company does not generally apply hedge accounting as defined by IFRS 9.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. If no active market, fair value has to be established using valuation techniques, including:

- recent transaction prices;
- the current fair value of similar instruments;
- discounted cash flow analysis; and
- option pricing models (e.g. Black & Scholes model).

FINANCIAL STATEMENTS NOTES TO THE FINANCIAL STATEMENTS

2 Significant accounting policies, judgements, estimates and assumptions (continued)

Current market conditions, credit and liquidity risk are also considered by the Company in the determination of fair value.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (e.g. the underlying contracted cash flows).

- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Offsetting of financial instruments

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

Revenue recognition

Revenues associated with the physical sale of crude oil are recorded when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. For the transfer to occur, the Company should neither retain continuing involvement to the degree usually associated with ownership, nor have effective control over the goods sold.

Revenue is booked only when it can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable. The amount of revenue arising on a commodity trade transaction is determined by agreement between the Company and the buyer, which is based on fixed or floating price formula.

Where a trade transaction includes a floating price formula, the amount of accrued revenue is determined based on the agreement pricing conditions and the best estimation by management of the market price as of the reporting date.

Revenue associated with the provision of freight services is recorded as the service is provided. For voyages that are incomplete as at the period-end date, revenue is recognised on a pro-rata basis to the extent that the voyage has been completed.

Cost of sales

Cost of sales includes direct costs of trade transactions, which are determined at historical costs. Direct costs of a transaction comprise the related purchase amount and all incidental costs such as freight, insurance, storage costs, inspection, analysis, letters of credit, supervision of loading and discharge, commissions, etc. Valuation adjustments on inventories and open trading positions, as well as the results of incoming and outgoing demurrage claims, are also accounted for under cost of sales.

FINANCIAL STATEMENTS NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Net trading Gain

Net trading gain arises from realised and unrealised sales and purchases of commodity contracts that have been determined to be for trading purposes and other financial instruments held for trading. They are shown at their net value to reflect the substance of the transactions.

Net trading gain also include all incidental costs associated with physical transactions with the crude oil such as freight, insurance, storage costs, inspection, analysis, letters of credit, supervision of loading and discharge, commissions, etc.

Interest income

Interest income is recognised as the interest accrues.

Finance costs

Finance costs are expensed in the period they occur. Finance costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds and granting of letters of credit.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation; such costs are recognised only if future economic benefits are probable and can be reliably measured. Start-up costs, general administrative and overhead costs or regular maintenance are excluded.

Property, plant and equipment are depreciated on a straight-line basis over the useful life of the asset as follows:

Leasehold improvements, Furniture and fittings	3 years
Office equipment and hardware	3 years

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

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets

Intangible assets include computer software and are measured on initial recognition at cost, less accumulated amortisation and accumulated impairment losses. Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the useful lives, and any accumulated impairment losses, as follows:

Computer software	3 years
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The expected useful lives of finite lives intangible assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

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.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

3. Net trading Gain (Loss)

Net trading gain, which is stated net of value added tax, represents amounts invoiced to and from third parties and group companies and comprises.

in US\$000	2018	2017
Gain arising on crude oil and oil products	48,616	22,119
Loss from derivatives	(19,876)	(25,300)
Finance and late payment interest	(4,753)	(4,076)
Total net trading gain / (loss)	23,987	(7,257)

The Company's principal activities and operations are global and constitute one business. Therefore no meaningful geographical region and business segment data can be determined.

4. General & Administrative Expenses

Included with 'general and administrative expenses' are the following:

in US\$000	2018	2017
Consultancy and legal fees	167	280
Travel	685	865
Operating lease rental	1,512	667
Communication expenses	161	140
IT expenses	2,517	2,131
Depreciation and amortisation costs	762	647
Other expenses	209	451
Total General & Administrative Expenses	6,013	5,181

Included with 'other expenses' are the following:

in US\$'000	2018	2017
Auditors' remuneration	88	131
Directors' remuneration	-	-

None of the directors of Socar Trading UK received or were due remuneration for their services as directors of the Company. The average monthly number of employees during the year was 39 (2017 : 34)

5. Interest payable and similar charges

Financial expenses represent mainly banking costs for trading operations and net foreign exchange losses.

6. Income tax (credit) expense

The tax charge for the year is lower than the standard rate of Corporation Tax in the UK of 19% (2017: 20%)

in US\$000	2018	2017
Current income tax (credit) expense	-	(1,291)
Adjustment in respect of prior years	-	(205)
Income tax (credit) expense reported in profit or loss	-	(1,496)

The tax charge for the year is lower than the standard rate of Corporation Tax in the UK of 19% (2017: 20%)

(b) Total tax Reconciliation	2018	2017
Profit on ordinary activities before taxation	1,494	(22,763)
Expected tax charge on ordinary activities at standard rate of 19% (2017: 20%)	284	(4,325)
Effects of:		
Disallowable expenses	29	183
Movement in deferred tax not recognised	115	2,987
Exchange rate movements	-	(136)
Utilisation of brought forward tax losses	(428)	-
Adjustment in respect of prior years	-	(205)
Income tax (credit) expense reported in profit or loss	-	(1,496)

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At 31 December 2018 the UK tax rates that had been substantively enacted were 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020).

A potential deferred tax asset of \$20,017k in respect of tax losses has not been recognised at the balance sheet date, on the basis that the availability of suitable profits arising in the future against which the timing difference could reverse is not considered probably.

7. Property, Plant & Equipment

Property, plant and equipment comprise vehicles, hardware equipment, renovation and furniture costs.

in US\$000	Renovation & Office Equipment	Total Tangible assets
Cost		
Opening balance at 1 January 2018	1,853	1,853
Additions for the year	286	286
Disposal of the year	-	-
Changes in consolidations scope	-	-
Transfers	-	-
Closing balance at 31 December 2018	2,139	2,139
Depreciation		
Opening balance at 1 January 2018	(773)	(773)
Charge for the year	(718)	(718)
Disposal of the year	-	-
Changes in consolidations scope	-	-
Transfers	-	-
Closing balance at 31 December 2018	(1,491)	(1,491)
Net book value at 31 December 2018	648	648

in US\$000	Renovation & Office Equipment	Total Tangible assets
Cost		
Opening balance at 1 January 2017	1,231	1,231
Additions for the year	1,134	1,134
Disposal of the year	(512)	(512)
Changes in consolidations scope	-	-
Transfers	-	-
Closing balance at 31 December 2017	1,853	1,853
Depreciation		
Opening balance at 1 January 2017	(500)	(500)
Charge for the year	(604)	(604)
Disposal of the year	331	331
Changes in consolidations scope	-	-
Transfers	-	-
Closing balance at 31 December 2017	(773)	(773)
Net book value at 31 December 2017	1,080	1,080

8. Intangible Assets

Intangible assets mainly represent trading, accounting, consolidation and treasury licenses costs.

in US\$000	Software development costs	Other intangible assets	Total intangible assets
Cost			
Opening balance at 1 January 2018	129	-	129
Additions for the year	-	-	-
Disposal of the year	-	-	-
Changes in consolidations scope	-	-	-
Transfers	-	-	-
Closing balance at 31 December 2018	129	-	129
Depreciation			
Opening balance at 1 January 2018	(43)	-	(43)
Charge for the year	(43)	-	(43)
Disposal of the year	-	-	-
Changes in consolidations scope	-	-	-
Transfers	-	-	-
Closing balance at 31 December 2018	(86)	-	(86)
Net book value at 31 December 2018	43	-	43

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8. Intangible Assets - continued

in US\$000	Software development costs	Other intangible assets	Total intangible assets
Cost			
Opening balance at 1 January 2017	-	-	-
Additions for the year	129	-	129
Disposal of the year	-	-	-
Changes in consolidations scope	-	-	-
Transfers	-	-	-
Closing balance at 31 December 2017	129	-	129
Depreciation			
Opening balance at 1 January 2017	-	-	-
Charge for the year	(43)	-	(43)
Disposal of the year	-	-	-
Changes in consolidations scope	-	-	-
Transfers	-	-	-
Closing balance at 31 December 2017	(43)	-	(43)
Net book value at 31 December 2017	86	-	86

9. Investment in subsidiary

The investment in subsidiary represents an investment in the following entity:

	Country of incorporation	Percentage of equity interest held		Investment	
		2018	2017	2018 \$ 000	2017 \$ 000
SOCAR Trading (North America LLC)	USA	100 %	100 %	20,000	20,000
				20,000	20,000

SOCAR Trading (North America) LLC was formed on 28th January 2016. Its principal activity is the trading of energy-related products in the US and international energy markets. Socar Trading UK has taken exemption under the Companies Act 2006 not to prepare group accounts.

10. Inventories

As of 31 December, inventories related both to crude oil and to oil product operations of the Group were as follows:

	2018	2017
in US\$000		
Crude oil stocks	38,171	209,684
Oil product stocks	116,188	42,905
Closing balance at 31 December	154,359	252,589

11. Receivables

	2018	2017
Amounts falling due within one year:		
in US\$000		
Financial assets at amortised cost		
Trade receivables	12,552	354,643
Accrued receivables	-	129,236
Amount owed from other SOCAR Trading group undertaking	97,317	108,897
Other receivables	699	745
Income tax receivable	1,288	2,023
Amounts falling due after one year:		
in US\$000		
Financial assets at amortised cost		
Amount owed from other SOCAR Trading group undertaking	-	72,710
Closing balance at 31 December	111,856	668,254

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

The movement in allowance for doubtful accounts is detailed below:

in US\$'000	2018	2017
Balance at 1 January	-	-
Charged during the year recognised in net trading gain (i)	(35)	
Charged during the year recognised in financial expense (ii)	(206)	
Closing balance at 31 December	(241)	-
(i) Includes additional provision of USD 35k (2017 : USD nil) to reflect expected credit losses, in accordance with IFRS 9.		
(ii) Includes additional provision of USD 206k (2017 : USD nil) to reflect expected credit losses in financial expense, in accordance with IFRS 9.		

12. Other Current Financial Assets

As of 31 December, other current financial assets are as follows:

in US\$000	2018	2017
Financial assets at fair value through profit and loss		
Unrealised gains on paper positions	53,495	14,019
Unrealised gains on physical positions	10,878	46,852
Closing balance at 31 December	64,373	60,871

13. Cash and cash equivalents

As of 31 December, the amount represents cash available and deposits at the banks, as follows:

in US\$000	2018	2017
Cash available on bank accounts	4,395	3,577
Closing balance at 31 December	4,395	3,577

Cash available on bank accounts earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

14. Other provisions

in US\$000	2018	2017
Opening balance at 1 January	-	-
New or increased provisions	255	
Closing balance at 31 December	255	-

In addition, a provision of USD 255,204 was made for the dilapidation cost that is expected to be incurred at the end of the lease agreement for Socar Trading (UK) Ltd offices. The dilapidation provision has been capitalised and is being amortised over the duration of the lease up to the break clause on 19th March 2022.

15. Interest-bearing loans and borrowings

in US\$000	2018	2017
Overdraft	26,843	30,812
Loans with external banks	138,798	120,875
Loans with other SOCAR Trading group undertaking	35,500	202,050
Closing balance at 31 December	201,141	353,737

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16. Payables

	2018	2017
Amounts falling due within one year: in US\$000		
Accruals	52,440	252,583
Trade payables	1,661	2,971
Accrued trading loss	18,965	1,690
Amount owed to other SOCAR Trading group undertaking	63,087	276,688
Other payables	243	140
Income tax payable	-	-
Closing balance at 31 December	136,396	535,072

17. Other Current Financial Liabilities

As of 31 December, other current financial liabilities are as follows:
in US\$000

	2018	2017
Unrealised losses on paper positions	64	96,335
Unrealised losses on physical positions	31,753	36,742
Closing balance at 31 December	31,817	133,077

18. Fair values of other financial assets and financial liabilities

The accounting classification of each category of financial instruments, and their carrying amounts, are set out below. The fair value of all financial assets and liabilities approximate their carrying amount.

At 31 December 2018

	Note	As amortised cost	At fair value through profit or loss	Financial liabilities at amortised cost	Total
		US\$000	US\$000	US\$000	US\$000
Financial assets					
Trade and other receivables	11	111,856	-	-	111,856
Financial instruments	12				
Derivatives		-	53,495	-	53,495
Physical positions		-	10,878	-	10,878
Financial liabilities					
Trade and other payables	16	-	-	(136,396)	(136,396)
Derivative financial instruments	17				
Derivatives		-	(64)	-	(64)
Physical positions		-	(31,753)	-	(31,753)
Bank loans and overdrafts		-	-	(201,141)	(201,141)
		<u>111,856</u>	<u>32,556</u>	<u>(337,537)</u>	<u>(193,125)</u>

At 31 December 2017

	Note	At amortised costs	At fair value through profit or loss	Financial liabilities at amortised cost	Total
		US\$000	US\$000	US\$000	US\$000
Financial assets					
Trade and other receivables	11	668,254	-	-	668,254
Financial instruments	12				
Derivatives		-	14,019	-	14,019
Physical positions		-	46,852	-	46,852
Financial liabilities					
Trade and other payables	16	-	-	(535,072)	(535,072)
Derivative financial instruments	17				
Derivatives		-	(96,335)	-	(96,335)
Physical positions		-	(36,742)	-	(36,742)
Bank loans and overdrafts		-	-	(353,737)	(353,737)
		<u>668,254</u>	<u>(72,206)</u>	<u>(888,809)</u>	<u>(292,761)</u>

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NOTES TO THE FINANCIAL STATEMENTS

18. Financial instruments and financial risk factors (continued)

For all financial instruments, the carrying amount is either the fair value, or approximates the fair value.

Financial risk factors

The management of financial risks is performed at SOCAR Trading group level. The main risk factors applicable to the Company are market risk (comprising commodity price risk) and credit risk. Further details on these financial risks are included within Note 6 of the consolidated financial statements of the State Oil Company of the Azerbaijan Republic for the year ended 31 December 2018.

Market risk

The Company, as part of the SOCAR Trading group, measures market risk exposure arising from its trading positions in liquid periods using value-at-risk techniques. These techniques make a statistical assessment of the market risk arising from possible future changes in market prices over a one-day holding period. The value-at-risk measure is supplemented by stress testing. Trading activity occurring in liquid periods is subject to value-at-risk limits for each trading activity and for trading activities in total. Alternative measures are used to monitor exposures which are outside liquid periods and which cannot be actively risk-managed.

Credit risk

The maximum credit exposure associated with financial assets is equal to the carrying amount. The Company does not aim to remove credit risk entirely but expects to experience a certain level of credit losses.

Trade and other receivables at 31 December In US\$000	2018 US\$000	2017 US\$000
Neither impaired nor past due	110,642	635,243
Impaired (net of provision)	-	-
Past due in the following periods:		
Within 30 days	489	32,090
31 to 60 days	256	549
61 to 90 days	209	321
Over 90 days	260	51
	<u>111,856</u>	<u>668,254</u>

Liquidity risk

The Company manages liquidity risk associated with financial liabilities based on the expected maturity of both financial assets and liabilities to ensure, as far as possible, 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 its reputation. Management does not currently anticipate any cash flows that could be of a significantly different amount, or could occur earlier than the expected maturity analysis provided.

At 31 December 2018	1 year or less US\$000	1-2 years US\$000	2-5 years US\$000	Greater than 5 years US\$000	Total US\$000
Financial liabilities					
Trade and other payables	136,396				136,396
Derivatives financial instruments	31,817				31,817
	<u>168,213</u>				<u>168,213</u>
At 31 December 2017					
Financial Liabilities					
Trade and other payables	535,072				535,072
Derivatives financial instruments	133,077				133,077
	<u>668,149</u>				<u>668,149</u>

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18. Financial instruments and financial risk factors (continued)

Financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements

The table below shows the gross amounts of recognised financial assets and liabilities (i.e. before offsetting) and the amounts offset in the balance sheet.

Amounts which cannot be offset under IFRS, but which could be settled net under the terms of master netting agreements if certain conditions arise, and collateral received or pledged, are also shown in the table to show the total net exposure of the Company.

At 31 December 2018	Gross amount of recognised financial assets / (liabilities)	Amounts set-off	Net amounts presented on the balance sheet	Related amounts not set-off in the balance sheet		
				Master netting agreements	Cash collateral received	Net amount
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Financial assets						
Trade and other receivables	111,856	-	111,856			111,856
Financial instruments:						
Derivatives	96,690	(43,195)	53,495	-	-	53,495
Physical positions	10,878	-	10,878	-	-	10,878
Financial liabilities						
Trade and other payables	(136,396)	-	(136,396)	-	-	(136,396)
Financial instruments:						
Derivatives	(43,259)	43,195	(64)	-	-	(64)
Physical positions	(31,753)	-	(31,753)	-	-	(31,753)
	<u>8,016</u>	<u>-</u>	<u>8,016</u>	<u>-</u>	<u>-</u>	<u>8,016</u>
At 31 December 2017	Gross amount of recognised financial assets / (liabilities)	Amounts set-off	Net amounts presented on the balance sheet	Related amounts not set-off in the balance sheet		
				Master netting agreements	Cash collateral received	Net amount
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Financial assets						
Trade and other receivables	1,034,177	(365,923)	668,254			668,254
Financial instruments:						
Derivatives	41,424	(27,405)	14,019	-	-	14,019
Physical positions	107,541	(60,689)	46,852	-	-	46,852
Financial liabilities						
Trade and other payables	(900,995)	365,923	(535,072)	-	-	(535,072)
Financial instruments:						
Derivatives	(123,740)	27,405	(96,335)	-	-	(96,335)
Physical positions	(97,431)	60,689	(36,742)	-	-	(36,742)
	<u>(60,976)</u>	<u>-</u>	<u>(60,976)</u>	<u>-</u>	<u>-</u>	<u>(60,976)</u>

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19. Derivatives and financial instruments

In the normal course of business the Company enters into derivative financial instruments to manage its normal business exposures in relation to commodity prices, consistent with risk management policies and objectives. An outline of the Company's financial risks and the objectives and policies pursued in relation to those risks is set out in Note 18. Additionally, the Company has a well-established entrepreneurial trading operation that is undertaken in conjunction with these activities using a similar range of contracts.

For information on significant estimates and judgements made in relation to the valuation of derivatives see Derivative financial instruments and hedging activities in Note 2

Exchange traded derivatives are valued using closing prices provided by the exchange as at the balance sheet date. These derivatives are categorised within level 1 of the fair value hierarchy. Over-the-counter (OTC) financial swaps and physical commodity sale and purchase contracts are generally valued using readily available information in the public markets and quotations provided by brokers and price index developers. These quotes are corroborated with market data and are categorised within level 2 of the fair value hierarchy.

In certain less liquid markets, or for longer-term contracts, forward prices are not as readily available. In these circumstances, OTC financial swaps and physical commodity sale and purchase contracts are valued using internally developed methodologies that consider historical relationships between various commodities, and that result in management's best estimate of fair value. These contracts are categorised within level 3 of the fair value hierarchy.

Financial OTC swaps and physical commodity options are valued using industry standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic factors. The degree to which these inputs are observable in the forward markets determines whether the option is categorised within level 2 or level 3 of the fair value hierarchy.

The fair values of derivative financial instruments at 31 December are set out below.

	2018 Fair value Asset	2017 Fair value Asset	2018 Fair value liability	2017 Fair value liability
	US\$000	US\$000	US\$000	US\$000
Financial Instruments held for trading				
Derivatives	53,495	14,019	(64)	(96,335)
Physical positions	10,878	46,852	(31,753)	(36,742)
	<u>64,373</u>	<u>60,871</u>	<u>(31,817)</u>	<u>(133,077)</u>
Of which:				
Current	64,373	60,871	(31,817)	(133,077)
Non- Current	-	-	-	-
	<u>64,373</u>	<u>60,871</u>	<u>(31,817)</u>	<u>(133,077)</u>

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19. Derivatives and financial instruments (continued)

Derivatives held for trading

The Company maintains active trading positions in a variety of derivatives. The contracts may be entered into for risk management purposes, to satisfy supply requirements or for entrepreneurial trading. Certain contracts are classified as held for trading, regardless of their original business objective, and are recognised at fair value with changes in fair value recognised in the profit and loss account. Trading activities are undertaken by using a range of contract types in combination to create incremental gains by arbitraging prices between markets, locations and time period. The net of these exposures is monitored using market value-at-risk techniques.

The following table shows the fair value of derivative assets and derivative liabilities held for trading, analysed by maturity period and by methodology of fair value estimation.

Fair value of financial instruments held for trading:	Level 1	Level 2	Level 3	Net amount
	US\$000	US\$000	US\$000	US\$000
At 31 December 2018				
Financial assets				
Derivatives	28,258	25,237	-	53,495
Physical positions	-	10,878	-	10,878
Financial liabilities				
Derivatives	-	(64)	-	(64)
Physical positions	-	(31,753)	-	(31,753)
	<u>28,258</u>	<u>4,298</u>	<u>-</u>	<u>32,556</u>
 Fair value of financial instruments held for trading:	 Level 1	 Level 2	 Level 3	 Net amount
	US\$000	US\$000	US\$000	US\$000
At 31 December 2017				
Financial assets				
Derivatives	-	14,019	-	14,019
Physical positions	-	46,852	-	46,852
Financial liabilities				
Derivatives	(91,542)	(4,793)	-	(96,335)
Physical positions	-	(36,742)	-	(36,742)
	<u>(91,542)</u>	<u>19,336</u>	<u>-</u>	<u>(72,206)</u>

Derivative gains and losses

Gains and losses on derivative contracts and physical positions are included within "Net Trading Gain" in the profit and loss account (Note 3).

20. Other financial commitments

Operating lease commitments

As of 31 December 2018, the company has commitments for future minimum lease payments in respect of non-cancellable operating leases with a term of more than one year as follows:

in US\$000	2018	2017
Not later than 1 year	1,458	1,170
Later than 1 year and not longer than 5 years	3,281	4,739
Later than 5 years	-	-
Closing balance at 31 December	4,739	5,909

The office space lease expense under operating lease was USD 1,512k in 2018 (2017: USD 667k). The office space lease expenses are recognised as an expense in the income statement.

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21. Issued Capital

	2018	2017
Authorised, issued and fully paid up		
100,000 ordinary shares of £1 for total of nominal value of £100,000	158	158

22. Reserves

Called up share capital

Called up share capital includes the total net proceeds on the issue of the Company's equity share capital.

Profit and loss account

The balance held on this reserve is the accumulated retained profits of the Company.

23. Related Party Disclosures

The Company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101 and has not disclosed transactions entered into with wholly-owned group companies or key management personnel. There were no other related party transactions during the year.

24. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is SOCAR Trading SA, a company registered in Switzerland. The ultimate controlling parent undertaking is the State Oil Company of the Azerbaijan Republic, a company registered in Azerbaijan, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of State Oil Company of the Azerbaijan Republic can be obtained from <http://www.socar.az/socar/en/economics-and-statistics/economics-and-statistics/socar-reports>.