Southern Gas Corridor
Closed Joint-Stock Company

Consolidated financial statements

31 December 2018

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Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor,
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 70 20
Fax: +994 (12) 490 70 17
www.ey.com/az

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 70 20
Faks: +994 (12) 490 70 17

Independent auditor's report

To the Management and Supervisory Board of the
Southern Gas Corridor Closed Joint-Stock Company

Opinion

We have audited the consolidated financial statements of the Southern Gas Corridor Closed Joint Stock Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of 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 2018, 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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of non-current assets	
At the end of each reporting period management assesses whether there is any indications that assets may be impaired. We considered this matter to be one of most significance in our audit due to the significance of the balances of non-current assets including oil and gas properties, construction in progress and development assets, long-term prepayments to the consolidated financial statements and high level of subjectivity in management's assessment of any indication of potential impairment. Management performed analysis of impairment indicators and did not identify any external or internal factors triggering impairment of non-current assets as of 31 December 2018. Information regarding analysis of indications of impairment of non-current assets is disclosed in Note 3 to the consolidated financial statements.	We analysed management's assessment of whether there was any indication of potential impairment of non-current assets. We analysed the available information and assessed whether there were observable indications that the assets value may have declined significantly. We assessed whether there were significant changes with adverse effect on the Group during the year. Particularly, we assessed the crude oil prices current and projected dynamics. We assessed whether the market interest rates and the Group's current weighted average cost of capital increased during the period. We searched for any available evidence of physical damage of the assets. We compared actual capital expenditures incurred by the Group for construction and development projects during 2018 to planned capital expenditure to identify any significant delays or deviations.
Reserve estimates	
The estimate of oil and gas reserves has a significant impact on the depreciation and asset retirement obligation. The Group involved internationally recognized independent reserves engineers to evaluate its oil and gas reserves in previous period and adjusted its oil and gas reserves based on updated forecasts as of 31 December 2018. Information on oil and gas reserves disclosed in Note 3 to the consolidated financial statements.	We compared the assumptions used by the reserve engineers in previous period and forecasts available as of 31 December 2018 with the Group's approved budget and historical data. We also assessed expertise and competence of the Group' reserve engineers. We assessed the underlying assumptions and compared estimates of reserves and resources to the amounts included in the calculation of depreciation, depletion and amortization and asset retirement obligation.

Responsibilities of management and the Supervisory board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

The Supervisory board 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 the Supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and a re therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Nargiz Karimova.

Ernst & Young Holdings (CIS) B.V.

Azerbaijan, Baku,
153 Neftchilar avenue

8 May 2019

Consolidated statement of financial position

as at 31 December 2018

(Amounts presented are in thousands of US dollars)

	Note	31 December 2018	31 December 2017
Assets			
Non-current assets			
Oil and gas properties	6	6,352,386	399,911
Construction in progress and development costs	7	2,295,663	7,180,692
Advance payments	8	2,567,116	2,490,027
Investment in associate	9	208,984	175,561
Loan receivables	10	588,739	645,363
Deferred tax assets		3,394	3,331
Other non-current assets		15,539	2,015
Total non-current assets		**12,031,821**	**10,896,900**
Current assets			
Cash and cash equivalents	11	304,633	146,785
Deposits	11	479,971	–
Accounts receivables	12	32,317	12,452
Inventories		11,412	8,849
Other current assets		24,270	22,783
Total current assets		**852,603**	**190,869**
Total assets		**12,884,424**	**11,087,769**
Equity and liabilities			
Equity			
Share capital	13	2,415,800	2,415,800
Additional paid in capital	13	31,481	31,481
Other reserves	13	(34,181)	(45,176)
Cumulative translation differences		(11,436)	20,652
Accumulated losses		(329,173)	(133,235)
Equity attributable to the Group's equity holders		**2,072,491**	**2,289,522**
Non-controlling interests	13	1,343,104	1,031,116
Total equity		**3,415,595**	**3,320,638**
Non-current liabilities			
Long-term borrowings	14	8,213,471	6,527,678
Government grant	14	629,270	648,166
Decommissioning liabilities	15	116,436	108,259
Deferred revenue		–	2,054
Deferred tax liability	20	14,007	13,563
Other non-current liabilities		22,951	21,212
Total non-current liabilities		**8,996,135**	**7,320,932**
Current liabilities			
Trade and other payables	16	51,464	125,896
Short-term and current portion of long-term borrowings	14	27,958	33,673
Accrued liabilities	16	384,785	281,406
Income tax payable		8,487	5,224
Total current liabilities		**472,694**	**446,199**
Total equity and liabilities		**12,884,424**	**11,087,769**

Signed and authorized on behalf of the Group

Afgan Isayev, General Director

8 May 2019

Adil Pashayev, Finance Director 8 May 2019

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

Consolidated statement of comprehensive income

for the year ended 31 December 2018

(Amounts presented are in thousands of US dollars)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	17	253,568	126,703
Cost of sales	5, 18	(132,833)	(74,985)
Gross profit		**120,735**	**51,718**
General and administrative expenses		(44,420)	(15,834)
Transportation tariffs		(4,030)	(3,636)
Other income	14	20,243	20,593
Operating profit		**92,528**	**52,841**
Interest income	19	34,817	19,504
Finance costs	10, 14, 15	(350,241)	(156,416)
Share of result of associate	9	(3,308)	(4,349)
Foreign exchange loss, net		(3,428)	(5,924)
Loss before income tax		**(229,632)**	**(94,344)**
Income tax expenses	20	(5,665)	(8,441)
Loss for the year		**(235,297)**	**(102,785)**
Other comprehensive (loss)/income			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent period			
Exchange differences on translation of foreign subsidiary		(25,704)	43,248
Exchange differences on translation of foreign associate	9	(6,384)	12,910
Other comprehensive (loss)/income for the year, net of tax		**(32,088)**	**56,158**
Total comprehensive loss for the year		**(267,385)**	**(46,627)**
Loss attributable to:			
Equity holders of the Group		(193,209)	(102,600)
Non-controlling interests		(42,088)	(185)
		(235,297)	**(102,785)**
Total comprehensive loss attributable to:			
Equity holders of the Group		(225,297)	(46,442)
Non-controlling interests		(42,088)	(185)
		(267,385)	**(46,627)**

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

Consolidated statement of cash flows

for the year ended 31 December 2018

(Amounts presented are in thousands of US dollars)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Operating activities			
Loss before income tax		(229,632)	(94,344)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Finance costs	10, 14, 15	350,241	156,416
Depreciation and depletion	6, 18	120,404	63,618
Share of result of associate	9	3,308	4,349
Other income		(20,243)	(20,593)
Interest income	19	(34,817)	(19,504)
Working capital adjustments			
Accounts receivable		(19,865)	(2,975)
Inventories		(2,563)	1,310
Accrued revenue		–	1,996
Other assets		(15,011)	3,293
Deferred revenue		(2,054)	(267)
Trade and other payables		1,705	6,388
Accrued liabilities		(994)	6,916
Cash generated from operations		**150,479**	**106,603**
Income tax paid		(1,608)	(1,959)
Interest received		3,765	6,589
Net cash flows from operating activities		**152,636**	**111,233**
Investing activities			
Placement of deposits	11	(480,000)	–
Financing provided to third parties	10	(69,530)	(82,700)
Financing provided to associate	10	(176,808)	(172,930)
Loan repaid by associate	10	594,349	–
Advance payments for acquisition of shares	8	(139,449)	(761,637)
Investments in oil and gas properties		(5,140)	(13,907)
Additions to construction in progress and development costs		(913,150)	(1,941,189)
Investment in associate	9	(44,945)	(75,450)
Net cash used in investing activities		**(1,234,673)**	**(3,047,813)**
Financing activities			
Increase in additional paid-in capital	13	–	74,713
Contribution in subsidiary by non-controlling shareholders	13	174,717	347,340
Proceeds from borrowings		1,179,930	2,547,770
Proceeds from disposal of non-controlling interests in a subsidiary	10, 13	95,000	–
Repayment of borrowings		–	(176,000)
Interest paid		(209,762)	(110,842)
Net cash flows from financing activities		**1,239,885**	**2,682,981**
Net increase/(decrease) in cash and cash equivalents		**157,848**	**(253,599)**
Cash and cash equivalents at the beginning of the year	11	146,785	400,384
Cash and cash equivalents at the end of the year	11	**304,633**	**146,785**

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

Consolidated statement of changes in equity

for the year ended 31 December 2018

(Amounts presented are in thousands of US dollars)

	Attributable to the equity holders of the parent							
	Share capital	Additional paid-in capital	Other reserves	Cumulative translation differences	Accumulated losses	Total	Non-controlling interests	Total equity
At 31 December 2016	**1,740,800**	**631,768**	**(45,176)**	**(35,506)**	**(30,635)**	**2,261,251**	**683,961**	**2,945,212**
Loss for the year	–	–	–	–	(102,600)	**(102,600)**	(185)	**(102,785)**
Other comprehensive income	–	–	–	56,158	–	**56,158**	–	**56,158**
Total comprehensive income/(loss)	**–**	**–**	**–**	**56,158**	**(102,600)**	**(46,442)**	**(185)**	**(46,627)**
Increase in additional paid-in capital (Note 13)	–	74,713	–	–	–	**74,713**	–	**74,713**
Increase in charter capital (Note 13)	675,000	(675,000)	–	–	–	**–**	–	**–**
Contribution by non-controlling shareholders (Note 13)	–	–	–	–	–	**–**	347,340	**347,340**
At 31 December 2017	**2,415,800**	**31,481**	**(45,176)**	**20,652**	**(133,235)**	**2,289,522**	**1,031,116**	**3,320,638**
Effect of change in accounting policy (Note 4)	–	–	–	–	(2,729)	**(2,729)**	–	**(2,729)**
Adjusted balance at 1 January 2018	**2,415,800**	**31,481**	**(45,176)**	**20,652**	**(135,964)**	**2,286,793**	**1,031,116**	**3,317,909**
Loss for the year	–	–	–	–	(193,209)	**(193,209)**	(42,088)	**(235,297)**
Other comprehensive loss	–	–	–	(32,088)	–	**(32,088)**	–	**(32,088)**
Total comprehensive loss	**–**	**–**	**–**	**(32,088)**	**(193,209)**	**(225,297)**	**(42,088)**	**(267,385)**
Sale of share in subsidiary (Note 13)	–	–	10,995	–	–	**10,995**	179,359	**190,354**
Contribution by non-controlling shareholders (Note 13)	–	–	–	–	–	**–**	174,717	**174,717**
At 31 December 2018	**2,415,800**	**31,481**	**(34,181)**	**(11,436)**	**(329,173)**	**2,072,491**	**1,343,104**	**3,415,595**

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

(Amounts presented are in thousands of US dollars, unless otherwise stated)

1. Corporate information

Southern Gas Corridor Closed Joint-Stock Company (the "Company" or "SGC CJSC") was established by the Presidential Decree No. 287 dated 25 February 2014. It was incorporated on 31 March 2014 in accordance with Azerbaijani legislation. 51% of the Company is owned by the Republic of Azerbaijan (the "State"), which is represented by the Ministry of Economy of the Republic of Azerbaijan ("ME"), whereas 49% belongs to the State Oil Company of Azerbaijan Republic ("SOCAR"). The Company is domiciled in the Republic of Azerbaijan. The registered address is located at 73 Neftchilar Avenue, Baku, AZ 1000, the Republic of Azerbaijan.

The Company was established for consolidating, managing and financing the State's interests in the full-field development of the Shah Deniz ("SD") gas-condensate field, the expansion of the South Caucasus Pipeline ("SCP"), implementation of Trans-Anatolian Natural Gas Pipeline ("TANAP") and Trans Adriatic Pipeline ("TAP") projects (together the "Projects"). The Company has the following subsidiaries:

		% equity interest	
Name	**Country of incorporation**	**31 December 2018**	**31 December 2017**
SGC Upstream LLC	Azerbaijan	100%	100%
SGC Midstream LLC	Azerbaijan	100%	100%
TANAP Doğalgaz Iletim A.Ş. ("TANAP A.Ş.")	Turkey	51%	58%
AzTAP GmbH	Switzerland	100%	100%

The Company holds 20% share in Trans Adriatic Pipeline AG ("TAP AG"), through AzTAP GmbH.

2. Significant accounting policies

Basis of preparation

These consolidated financial statements of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Basis for consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Group and to the non-controlling interests ("NCIs"), even if this results in the NCIs having a deficit balance.

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.

Transactions with non-controlling interest ("NCI")

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and NCIs shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the NCIs are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

Business combinations with entities under common control

The Group applies pooling of interest method of accounting for business combinations with entities under the common control from the date when the combination took place.

The pooling of interests method includes the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the combination. The only adjustments that are made are to align accounting policies;
- No "new" goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the net assets acquired is reflected within equity;
- Total comprehensive income reflects the results of the combining entities from the period when the combination took place.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Business combinations (continued)

Acquisition of an entity that is not a business

When the Group acquires an entity that is not a business, it allocates the cost of acquisition between the individual identifiable assets and liabilities of the acquired entity as following:

- For any identifiable asset or liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS;
- The Group deducts from the transaction price of the group the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

Investment in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and NCIs in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within "Share of profit of an associate" in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2. Significant accounting policies (continued)

Investments in SD PSA, SCP and AGSC

According to the terms of Shah Deniz Production Sharing Agreement ("SD PSA"), the Group owns the portion of project's assets and is liable for its portion of project's liabilities. At the same time, the Group is entitled to its portion of expenses incurred and revenues earned by the whole project. Therefore, the Group accounts for its investment in SD PSA by recognizing its interest portion of underlying assets, liabilities, expenses incurred and income earned by the project.

Participating interest of the Group in the SCP Project is treated by the Group as undivided interest related to the investment in South Caucasus Pipeline Company Limited ("SCPC") and accounted by recognizing its portion of underlying assets, liabilities, expenses incurred and income earned by the project.

The Group holds an interest in the Azerbaijan Gas Supply Company Limited ("AGSC"), a company established together with the other Contractor Parties of the SD Project and the Ministry of Energy of the Republic of Azerbaijan. AGSC is special structured entity established for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of SD gas and operates on a no gain, no loss basis.

Foreign currency translation

The consolidated financial statements are presented in US dollars ("USD") and all values are rounded to the nearest thousands, except when otherwise indicated.

The functional currency of the Company, subsidiaries and associate are the following:

SGC CJSC	USD
SGC Upstream LLC	USD
SGC Midstream LLC	USD
TANAP A.Ş.	USD
AzTAP GmbH	EUR
TAP AG	EUR

The transactions executed in foreign currencies are initially recorded in the functional currencies of respective Group entities by applying the appropriate rates of exchanges prevailing at the date of transaction.

Monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency of that entity at the appropriate exchange rates prevailing at the reporting date.

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are recognized in profit or loss.

The results and financial position of the Group entities which functional currency differ from the presentation currency of the Group are translated into the presentation currency of the Group as follows:

(i) Assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each statement of 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); and

(iii) All resulting exchange differences are recognized as a separate component of equity – currency translation difference.

At 31 December 2018 the principal rate of exchange used for translating foreign currency balances was USD 1.1452 per EUR 1 (31 December 2017: 1.1945).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below. Since the Group started to apply IFRS 9 *Financial Instruments* after 1 January 2018, the comparative information has not been restated and continues to be reported under IAS 39 *Financial Instruments: Recognition and Measurement*. Therefore, accounting policy under IAS 39 *Financial Instruments: Recognition and Measurement* which was disclosed in the Group's consolidated financial statements as of 31 December 2017 is not repeated here.

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 to 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 best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are 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 consolidated 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 consolidated 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.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Financial instruments – key measurement terms (continued)

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest 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.

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 ("FVOCI"), and fair value through profit or loss ("FVPL").

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.

Subsequent measurement

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

- Financial assets at amortised cost (debt instruments);
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at FVPL.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Financial assets (continued)

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, loan receivables and other non-current financial assets.

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.

Impairment of financial assets

The Group recognises an allowance for ECLs for all debt instruments not held at FVPL. 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).

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

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, 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, net of directly attributable transaction costs.

The Group has not designated any financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge.

Subsequent measurement

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

Loans and borrowings

This category is most relevant to the Group. After initial recognition, interest bearing loans and borrowings which have a fixed contractual repayment schedule are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization is included in finance cost in the consolidated statement of comprehensive income.

Borrowings with no pre-defined contractual repayment schedules are measured in accordance with expected repayment schedule.

Trade and other payables

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

Derecognition

A financial liability is derecognized 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 recognized in the profit or loss in the consolidated statement of comprehensive income.

Offsetting of financial instruments

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

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depreciation and provision for impairment, where required. Such cost includes the cost of replacing part of the oil and gas properties and borrowing costs for long-term construction projects if the recognition criteria are met.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Oil and gas properties (continued)

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of oil and gas properties items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of oil and gas properties. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there are indicators that impairment loss may no longer exist or may have decreased.

Gains and losses on disposals are determined by comparing proceeds from disposal with the carrying amount and are recognised in profit or loss for the year.

Construction in progress

All costs directly or indirectly attributable to the projects of construction and expansion the capacity of the pipeline systems are capitalized as a construction in progress. The construction in progress is stated at a cost and not depreciated but tested for impairment if indicators exist. The construction in progress is transferred to the property, plant and equipment upon completion.

Depreciation, depletion and amortization

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the units-of-production method based on proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

The cost of an off-shore production platform, terminal and other development costs incurred in connection with a planned group of development wells is reduced for the portion of development costs related to wells which have not been drilled yet in determining the asset base subject to the unit-of-production amortization rate until the additional development wells are drilled. Similarly, in computing the depletion rate, those proved reserves that will be produced only after significant additional development costs are incurred are excluded from proved developed reserves.

Depreciation, depletion and amortization of capitalized costs of the pipeline systems are calculated using the straight line method for the period of useful life of pipelines. The estimated useful life of the SCP pipeline is thirty years from 25 November 2006 when the pipeline was officially ready and put in use. The estimated useful life of the TANAP pipeline system will be the period from the date when the pipeline is ready for use till the year 2062.

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Oil and natural gas development expenditure

The Group follows the successful efforts method of accounting for oil and natural gas development activities. Costs to acquire mineral interests, to determine the technical feasibility, assess commercial viability of an identified resource and to drill and equip exploratory wells that find proved reserves are capitalized within exploration and evaluation assets. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalized expenditure is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to oil and gas properties. No amortization is charged during the exploration and evaluation phase.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Advance payments

Advance payments are recognized and carried at the original amount of payment less provision for any amount at risk of non-performance by the counterparty. Advance payments made for non-current assets as well as payments which will be settled during more than one-year period are non-current advance payments.

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 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.

Impairment of oil and gas properties, construction in progress, development costs and other non-financial assets

The Group assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of producing crude oil is accounted on weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the production cost, the appropriate proportion of depletion and depreciation charges and overheads. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to completion and disposal.

Decommissioning liabilities

Under the provisions of the SD PSA, the Contractor Parties to the SD PSA are obligated to finance the ultimate abandonment of oil and gas production properties employed in petroleum operations within the contract area. The maximum amounts of abandonment funds cannot exceed 10% of the capital costs in accordance with the SD PSA. The Group estimates its share of total decommissioning liabilities based on SD PSA provisions by applying the 10% limit to all capital costs incurred in petroleum operations in the contract area as at the year-end. The present value of the decommissioning liabilities is recorded by the Group as a liability at the time the assets are installed or placed in service. The amount of liability equals the present value of the future decommissioning liabilities discounted at pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability, which equals 6.26% at 31 December 2018 (31 December 2017: 5.66%). A corresponding tangible fixed asset of an amount equivalent to the liability is also created and included in the cost of oil and gas production properties. This amount is subsequently depreciated as part of the oil and gas production properties and charged against income using the unit-of-production method based on proved reserves. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas production properties. The unwinding of the discount on the decommissioning provision is included as a finance cost.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Decommissioning liabilities (continued)

According to the Host Government Agreement ("HGA") signed with the Georgian and Azerbaijan Governments, no later than 30 days after the termination of the HGA, SCPC must submit a decommissioning plan to these Governments addressing its obligations to retire the pipeline. The amount of asset retirement obligation is capitalized by shareholders of SCPC.

In accordance with HGA signed with the Government of Turkey, the Group shall comply with all its decommissioning obligations following the expiry of HGA (2062). The Group started construction works in March 2015. At the date of the consolidated financial statements, the Group had performed works related to backfilling activities, placement of compressors and SCADAs, which require decommissioning works. The Group recognized decommissioning liability, which represents the management's best estimate of the expenditures required to settle the present obligation at the reporting date.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant related to an asset, it is recognized as income over the expected useful life of the related asset on a basis consistent with the depreciation policy.

The benefit of a bond issued to the government at a below market rate of interest is treated as a government grant. Such benefit is measured as the difference between the initial fair value of the issued bond and the proceeds received.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

The Group is liable for financing of its 6.67% share in the tax liabilities of SCPC, namely Azerbaijani income tax, Georgian income tax and Georgian minimum tax liabilities.

According to the provisions of SD PSA, contractor parties are liable for profit taxes. However, according to the SD PSA, respective government entity of the Republic of Azerbaijan is liable for payment of profit taxes of each contractor party from the proceeds from sales of crude oil and natural gas. Accordingly, the Group recognizes profit taxes and related revenue in the consolidated statement of comprehensive income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred 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 liability 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.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Income taxes (continued)

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

Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of property, plant and equipment.

Operating tax of TANAP A.Ş.

As per the HGA between the Government of Turkey and TANAP A.Ş. , it was determined that the corporate income tax of TANAP A.Ş. will only be based on the amount of natural gas transmitted from the pipeline after the pipeline is put in use. According to tax ruling received on 7 April 2017 TANAP A.Ş. is not subject to corporate tax. TANAP A.Ş. is required to pay tax of US dollars 5.95 per thousand cubic metrics of gas measured at entry point.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

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 to the Group.

Transactions with related parties

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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 arm's length basis.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of commitments, guarantees and contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

On an on-going basis, management evaluates their estimates, including those related to revenue recognition and contingencies. Management bases their estimates on various market-specific assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making assumptions about the carrying values of assets that are not readily apparent from other sources. Actual results may differ significantly from these estimates using different assumptions or conditions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quantity of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period; changes in reported reserves can impact provision of decommissioning liabilities due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortization charges to the consolidated statement of comprehensive income.

Natural gas and condensate reserves depend on price fluctuations as a result of change in production entitlement split between the State and contractor parties. Natural gas prices are calculated based on the long-term sales contracts provisions and depend on crude oil prices and other inputs. The current long-term Brent FOB oil price assumption used in the estimation of reserves is sixty seven dollars sixty two cents per barrel (US dollars 67.62) as at the consolidated statement of financial position date.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

ECL measurement

The Group uses a provision matrix to calculate ECLs for financial assets. The provision rates are based on credit rating of financial institutions. 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.

Decommissioning liabilities

As discussed in Note 2, under the terms of the SD PSA the Group will have to make contributions to the abandonment fund when seventy percent (70%) of petroleum reserves of the SD field are recovered. Decommissioning liabilities are stated in the amount of expected contributions related to the currently employed assets discounted at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. This valuation requires the Group to make estimates about timing of expected future cash flows and adjustment to the discount rate, and hence they are subject to uncertainty. The estimation of the decommissioning liabilities is based on the assumption that contributions to the abandonment fund will start in 2027 (Note 15).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

3. Significant accounting judgments, estimates and assumptions (continued)

Decommissioning liabilities (continued)

If the estimated discount rate used in the calculation had been 1% higher/lower than management's estimate, the carrying amount of the provision would have been US dollar 9,815 lower / US dollars 11,164 higher, respectively.

Recoverability of oil and gas assets

The Group assesses each CGU every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

The recoverable amount used in performing the impairment test described below is value-in-use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for oil fields is most sensitive to the following assumptions:

Identification of CGU

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets of group of assets. The management assesses that SCP, TANAP and TAP projects are being constructed with the ultimate goal of the delivering SD field natural gas to the Georgian, Turkish and European markets. Therefore, all these projects have been considered as one CGU and impairment test is performed on the level of the whole Group.

Capital expenditures

Capital expenditures necessary to maintain estimated production volumes are based on long-term development plans for particular field.

Commitments under Deferred Sale and Purchase Agreement ("DSPA")

As disclosed in Note 23, the Group is committed to make progress payments under the terms of the DSPA.

Crude oil price

Commodity prices used in the forecasts are publicly available. If the forecasted prices used in the calculation had been five dollars (US dollars 5.0) lower than management's estimate, this would not result in any impairment loss.

Discount rate

The post-tax discount rate applied to the cash flow projections of CGU was 6%. The discount rate calculation is based on the specific circumstances of the Group and derived from its incremental borrowing rate adjusted to the specific risks associated with the asset's estimated cash flows. If the estimated discount rate used in the calculation had been 1% higher than management's estimate, this would not result in impairment loss.

The last impairment test was performed by the Group as of 30 June 2016 and did not result in any impairment loss. Management did not identify impairment indicators as of 31 December 2018.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

3. Significant accounting judgments, estimates and assumptions (continued)

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

4. New and amended standards and interpretations

4.1 Change in the Group's accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements as at and for the year ended 31 December 2017, except for the adoption of new standards effective as at 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption (i.e. by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018) and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

As a result of the analysis performed by the Group, the conclusion was made that the standard has no significant impact on the consolidated financial statements, except for the effect of adopting IFRS 15 as of 1 January 2018 outlined below.

Sale of goods

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation. The Group concluded that the revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Rendering of services

The Group's contracts with customers for rendering of services generally include one performance obligation, because its promises to provide services are not capable of being distinct and separately identifiable. The Group satisfies its performance obligation for rendering of services over time and revenue is recognized using the output method. The adoption of IFRS 15 did not have an impact on the timing of revenue recognition

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. New and amended standards and interpretations (continued)

4.1 Change in the Group's accounting policies (continued)

Accounting for over / underlift oil

The Group operates in SD PSA arrangement for production of oil and gas products. Before adoption of IFRS 15, the Group recognized revenue based on the actually sold volume of crude oil and adjusted the revenue figure for production imbalances which is any variance between actual share of production volume sold to date and the share of production which the party has been entitled to sell to date. However, under IFRS 15, revenue should be recognized based on actually sold volume of crude oil with no adjustments made in respect of production imbalances. The Group adjusts its cost of sales for production imbalances in order to align with the volumes actually sold.

The Group previously recognized overlift liability and underlift assets by applying market value at initial recognition which is subsequently recognized at the lower of carrying amount and fair value. After transition to IFRS 15, the Group started to apply cost method for measurement of underlift asset and overlift liability at initial recognition in order to not to distort the figures. Upon adoption of IFRS 15, at 1 January 2018, the accumulated loss balance of the Group decreased by US dollars 1,356. The adoption of IFRS 15 did not have a material impact on the Group's financial statement line items as at and for the year ended 31 December 2018.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for reporting periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 retrospectively choosing not to restate prior year figures. Prior year figures for the assets, which are now within the scope of IFRS 9, were presented in accordance with IAS 39 and will not be comparable to the information related to 2018. Differences arising from the adoption of IFRS 9, have been recognized directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as FVPL. Debt financial assets that meet the SPPI criterion are measured either at FVPL, amortized cost or at FVOCI. The classification for the debt financial assets that meets the SPPI criterion is based on the Group's business model for managing these assets:

- Financial assets that are managed under "hold to collect" basis that are measured at amortized cost;
- Financial assets that are managed under "hold to collect and sell" basis that are measured at FVOCI;
- Financial assets that are managed under "held for trading" basis that are measured at FVPL.

The assessment of the Group's business models is made as of the date of initial application, 1 January 2018 and then applies retrospectively to those financial assets that were not derecognized before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest is made based on the facts and circumstances not only as at the date of the initial recognition of the assets, but also as at the date of substantial modification.

Debt instruments that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion are required to be classified at amortized cost. This category includes Trade and other receivables, deposits, loan receivables and other financial assets included under other current and non-current assets.

The classification and measurement of financial liabilities remains largely unchanged from requirements of IAS 39 requirements.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. New and amended standards and interpretations (continued)

4.1 Change in the Group's accounting policies (continued)

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. IFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVPL.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The effect of adopting IFRS 9 as at 1 January 2018 was as follows:

	Accumulated loss and NCI
Closing balance of accumulated loss under previous IAS 39 (31 December 2017)	**(133,235)**
IFRS 9 ECL effect on accumulated loss	(4,085)
Restated opening balance under IFRS 9 (1 January 2018)	**(137,320)**
Closing balance of NCI under IAS 39 (31 December 2017)	**1,031,116**
IFRS 9 ECL effect on NCI	–
Restated opening balance under IFRS 9 (1 January 2018)	**1,031,116**
Total change in equity	**(4,085)**

	IAS 39 measurement	Remeasure-ment ECL	IFRS 9 measurement
Cash and cash equivalents (Note 11)	146,785	(195)	146,590
Accounts receivables (Note 12)	12,452	–	12,452
Total current financial assets	**159,237**	**(195)**	**159,042**
Loan receivables (Note 10)	645,363	(3,890)	641,473
Total non-current financial assets	**645,363**	**(3,890)**	**641,473**
Total financial assets	**804,600**	**(4,085)**	**800,515**

Amendments to IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. New and amended standards and interpretations (continued)

4.1 Change in the Group's accounting policies (continued)

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

4.2 Standards 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 financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the Group.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. New and amended standards and interpretations (continued)

4.2 Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 from effective date applying the modified retrospective transition method and will elect to apply the practical expedient that permits the entity not to reassess whether a contract is, or contains, a lease at the date of initial application. In addition, the Group will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group is in the process of impact assessment of IFRS 16.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. New and amended standards and interpretations (continued)

4.2 Standards issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

The Interpretation specifically addresses the following:

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

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

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

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*. The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

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

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. The amendments are effective for annual periods beginning on or after 1 January 2019. The Group does not expect any effect of this amendment on its consolidated financial statements.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. New and amended standards and interpretations (continued)

4.2 Standards issued but not yet effective (continued)

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income. The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. This amendment is not applicable to the Group.

Annual improvements 2015-2017 cycle

Annual improvements are part of the Board's process for maintaining IFRS Standards and contain Interpretations that are minor or narrow in scope. The amendments made during the 2015-2017 cycle are:

IFRS 3 Business Combinations – previously held Interests in a joint operation

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements – previously held Interests in a joint operation

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. New and amended standards and interpretations (continued)

4.2 Standards issued but not yet effective (continued)

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IFRS 3 Business Combinations – definition of a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if: (a) it is critical to the ability to develop or convert acquired inputs into outputs; and (b) the inputs acquired include both an organized workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organized workforce could develop or convert into outputs. In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if: (a) it is critical to the ability to continue producing outputs and the acquired inputs include an organized workforce with the necessary skills, knowledge, or experience to perform that process; or (b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs. The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities.

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed. The Group will apply amendment form its effective date.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. New and amended standards and interpretations (continued)

4.2 Standards issued but not yet effective (continued)

Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments must be applied prospectively. Early application is permitted and must be disclosed. Although the amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the consolidated financial statements.

5. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the management of the Group and for which discrete financial information is available.

The Group is organized into business units based on their products and services and has two reportable segments as follows:

- Oil and gas – representing extraction of natural gas and gas condensate;
- Distribution – representing transportation of natural gas and gas condensate.

No operating segments have been aggregated to form the above reportable operating segments.

The Group's segments are strategic business units that focus on different customers. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transfer prices between operating segments are either on an arm's length basis or non-arm's length basis.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

5. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Revenues					
External customers	181,958	71,610	–	–	**253,568**
Inter-segment	–	29,427	–	(29,427)	**–**
Total revenue	**181,958**	**101,037**	**–**	**(29,427)**	**253,568**
Depreciation and depletion	(63,379)	(57,025)	–	–	**(120,404)**
Other costs	(12,429)	(1,206)	–	1,206	**(12,429)**
Transportation tariffs	(32,251)	–	–	28,221	**(4,030)**
General and administrative expenses	(6,073)	(24,445)	(13,902)	–	**(44,420)**
Other income	1,006	2,873	16,364	–	**20,243**
Interest income	–	9,046	284,633	(258,862)	**34,817**
Finance costs	(116,759)	(125,150)	(291,486)	183,154	**(350,241)**
Share of result of associates	–	(3,308)	–	–	**(3,308)**
Foreign exchange loss, net	(5)	(215)	(9,023)	5,815	**(3,428)**
Income tax expense	–	(5,665)	–	–	**(5,665)**
Net loss for the year	**(47,932)**	**(104,058)**	**(13,414)**	**(69,893)**	**(235,297)**

(*) These numbers include unallocated transactions managed and recognized at the group level.

(**) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Investment in associates	–	208,984	–	–	**208,984**
Other reportable segment assets	3,593,184	7,621,629	8,249,479	(6,788,852)	**12,675,440**
Total reportable segment assets	**3,593,184**	**7,830,613**	**8,249,479**	**(6,788,852)**	**12,884,424**
Other reportable segment liabilities	(3,637,067)	(5,117,028)	(7,254,816)	6,540,082	**(9,468,829)**
Total reportable segment liabilities	**(3,637,067)**	**(5,117,028)**	**(7,254,816)**	**6,540,082**	**(9,468,829)**
Capital expenditure (***)					
Additions	131,397	1,132,161	–	(75,708)	**1,187,850**
Additions – investment in associate	–	44,945	–	–	**44,945**
Advance payments for acquisition of shares	35,539	103,910	–	–	**139,449**
Advance payments related to construction works	(351)	(62,009)	–	–	**(62,360)**
Total capital expenditures	**166,585**	**1,219,007**	**–**	**(75,708)**	**1,309,884**

(*) These numbers include unallocated assets and liabilities managed and recognized at the group level.

(**) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

5. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Revenues					
External customers	126,703	–	–	–	**126,703**
Inter-segment	–	24,548	–	(24,548)	**–**
Total revenue	**126,703**	**24,548**	**–**	**(24,548)**	**126,703**
Depreciation and depletion	(60,189)	(3,429)	–	–	**(63,618)**
Other costs	(9,419)	(3,127)	–	1,179	**(11,367)**
Transportation tariffs	(27,005)	–	–	23,369	**(3,636)**
General and administrative expenses	(9,077)	(3,412)	(3,345)	–	**(15,834)**
Other income	1,169	322	19,102	–	**20,593**
Interest income	–	8,648	191,640	(180,784)	**19,504**
Finance costs	(64,902)	(30,863)	(153,106)	92,455	**(156,416)**
Share of result of associates	–	(4,349)	–	–	**(4,349)**
Foreign exchange loss, net	–	53,218	1,486	(60,628)	**(5,924)**
Income tax expense	–	(8,441)	–	–	**(8,441)**
Net (loss)/profit for the year	**(42,720)**	**33,115**	**55,777**	**(148,957)**	**(102,785)**

(*) These numbers include unallocated transactions managed and recognized at the group level.

(**) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Investment in associates	–	175,561	–	–	**175,561**
Other reportable segment assets	3,488,893	6,890,591	7,106,429	(6,573,705)	**10,912,208**
Total reportable segment assets	**3,488,893**	**7,066,152**	**7,106,429**	**(6,573,705)**	**11,087,769**
Other reportable segment liabilities	(3,486,196)	(4,616,537)	(6,089,872)	6,425,474	**(7,767,131)**
Total reportable segment liabilities	**(3,486,196)**	**(4,616,537)**	**(6,089,872)**	**6,425,474**	**(7,767,131)**
Capital expenditure (***)					
Additions	251,526	1,994,302	–	(87,599)	**2,158,229**
Additions – investment in associate	–	75,450	–	–	**75,450**
Advance payments for acquisition of shares	705,360	56,277	–	–	**761,637**
Advance payments related to construction works	(3,080)	(110,473)	–	–	**(113,553)**
Total capital expenditures	**953,806**	**2,015,556**	**–**	**(87,599)**	**2,881,763**

(*) These numbers include unallocated assets and liabilities managed and recognized at the group level.

(**) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

5. Segment information (continued)

Geographical information

Revenue is generated from sales of natural gas and crude oil produced in Azerbaijan and transportation of natural gas to Turkey.

Non-current assets other than financial instruments and deferred tax assets for each individual country for which they are material are reported separately as follows:

	2018	2017
Azerbaijan	4,530,051	4,268,010
Turkey	6,208,259	5,364,692
Georgia	478,895	439,943
Switzerland	208,984	175,561
Total	**11,426,189**	**10,248,206**

The analysis is based on location of assets.

6. Oil and gas properties

Movements in the carrying amount of oil and gas properties consisted of the following:

	Oil and gas production properties	Pipeline assets	Decommis-sioning costs	Total
Cost				
At 31 December 2016	**490,016**	**76,032**	**18,625**	**584,673**
Additions	12,554	879	1,005	**14,438**
At 31 December 2017	**502,570**	**76,911**	**19,630**	**599,111**
Additions	4,240	900	6,811	**11,951**
Transfers from development costs and construction in progress (Note 7)	1,474,996	4,515,607	70,325	**6,060,928**
At 31 December 2018	**1,981,806**	**4,593,418**	**96,766**	**6,671,990**
Accumulated depletion and depreciation				
At 31 December 2016	**(123,687)**	**(8,218)**	**(3,677)**	**(135,582)**
Charge for the year	(57,081)	(3,429)	(3,108)	**(63,618)**
At 31 December 2017	**(180,768)**	**(11,647)**	**(6,785)**	**(199,200)**
Charge for the year	(61,829)	(56,696)	(1,879)	**(120,404)**
At 31 December 2018	**(242,597)**	**(68,343)**	**(8,664)**	**(319,604)**
Net book value				
At 31 December 2018	**1,739,209**	**4,525,075**	**88,102**	**6,352,386**
At 31 December 2017	**321,802**	**65,264**	**12,845**	**399,911**

Oil and gas production properties

Oil and gas production properties are represented by the Group's 6.67% share in oil and gas production properties of SD project.

On 30 June 2018 first commercial deliveries of gas under the SD Stage 2 project were commenced and respective accumulated development costs amounting to US dollars 1,474,996 were transferred to oil and gas production properties (Note 7).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

6. Oil and gas properties (continued)

Pipeline assets

The pipeline cost represents the Group's 6.67% share in cost of construction of SCP pipeline and cost of construction of TANAP pipeline.

Construction of TANAP pipeline consist of two phases: Phase 0 and Phase 1. The Phase 0, construction of the pipeline section from the Georgia/Turkey border to Eskişehir (Turkey), was completed by June 2018, following which the commercial deliveries of gas through TANAP pipeline commenced on 30 June 2018 and respective accumulated costs amounting to US dollars 4,375,062 were transferred from construction in progress to pipeline assets (Note 7). The Phase 1, construction of the pipeline section from Eskişehir to Turkey/Greece border, is anticipated to be completed in 2019.

Construction of three elements of SCP expansion (Georgian loop, Compressor station and Pressure reduction and meeting station) was completed by 30 June 2018. Finalization of construction in these three SCP Expansion elements was followed by the commencement of commercial gas delivery to Turkey. At the commencement date of operation in SCP Expansion, construction in progress amounting to US dollars 140,545 was transferred to pipeline assets (Note 7). Construction of remaining two elements of SCP expansion (Azerbaijan loop and Gas Compressor station 2) was complete by 99.9% as of 31 December 2018.

Decommissioning costs

The capitalized decommissioning costs are represented by the Group's 6.67% share in costs related to decommissioning of assets employed for the purposes of SD and SCP projects and costs related to decommissioning of assets of TANAP project (Note 15).

7. Construction in progress and development costs

Movements in the carrying amount of oil and gas properties consisted of the following:

	Development costs	Construction in progress	Decommis-sioning costs	Total
At 31 December 2016	**1,123,785**	**3,854,924**	**58,192**	**5,036,901**
Additions	230,659	1,892,631	20,501	**2,143,791**
At 31 December 2017	**1,354,444**	**5,747,555**	**78,693**	**7,180,692**
Additions	120,552	1,059,753	(4,406)	**1,175,899**
Transfer to oil and gas properties (Note 6)	(1,474,996)	(4,515,607)	(70,325)	**(6,060,928)**
At 31 December 2018	**–**	**2,291,701**	**3,962**	**2,295,663**
Net book value				
At 31 December 2018	**–**	**2,291,701**	**3,962**	**2,295,663**
At 31 December 2017	**1,354,444**	**5,747,555**	**78,693**	**7,180,692**

Construction in progress

As at 31 December 2018 this amount includes cost directly related to the construction of TANAP Phase 1 and remaining two elements of SCP Expansion in the amount of US dollars 2,104,112 (31 December 2017: US dollars 5,449,475) and US dollars 187,589 (31 December 2017: US dollars 298,080), respectively.

Capitalized borrowing cost

During the year ended 31 December 2018 the Group capitalized borrowing cost in the amount of US dollars 173,870 as part of construction in progress and development costs (2017: US dollars 207,314).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

8. Advance payments

Advance payments consisted of the following at 31 December:

	2018	2017
Advance payments for acquisition of shares	2,536,956	2,397,507
Other payments related to construction works	30,160	92,520
	2,567,116	**2,490,027**

Advance payments for acquisition of shares

Advance payments for acquisition of shares represents advances paid in the amount of US dollars 1,855 million (31 December 2017: US dollars 1,819 million) to Azerbaijan (Shah Deniz) Limited ("AzSD") and US dollars 682 million (31 December 2017: US dollars 578 million) to Azerbaijan (South Caucasus Pipeline) Limited ("AzSCP") for acquisition of their 10% interests in the SD PSA and SCP projects, respectively, and treated as non-financial assets. Refer to Note 23 for further details.

9. Investment in associate

At 31 December 2018 the Group held twenty percent (20%) interest in TAP AG. TAP AG is responsible for the development and operation of the gas transportation infrastructure from the Greece/Turkey border to Southern Italy in order to deliver SD natural gas to European countries. The Group exercises significant influence over the entity by participating in its financial and operating decisions.

The Group acquired investment in TAP AG through acquisition of 100% shares of AzTAP GmbH in 2014.

The table below summarizes the movements in the carrying amount of the Group's investment in TAP AG:

	2018	2017
Opening carrying amount	**175,561**	**90,378**
Additions to investment in associate	44,945	75,450
Share of after tax results of associate	(3,308)	(4,349)
Other	(1,830)	1,172
Exchange differences	(6,384)	12,910
Closing carrying amount	**208,984**	**175,561**

The following table illustrates summarized financial information of the Group's investment in TAP AG at 31 December:

	2018	2017
Current assets	123,281	126,858
Non-current assets	4,131,562	3,346,836
Current liabilities	(297,792)	(330,471)
Non-current liabilities	(2,999,061)	(2,355,361)
Net assets	**957,990**	**787,862**
Group's interest in net assets	**191,598**	**157,572**
Goodwill recognized upon acquisition	18,872	18,872
Exchange differences on translation of goodwill	(1,486)	(883)
Carrying value	**208,984**	**175,561**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

9. Investment in associate (continued)

Share of associate's results for the period ended 31 December:

	2018	2017
Revenue	–	–
Operating expenses	(33,266)	(31,054)
Other income	15,269	5,687
Loss before tax	**(17,997)**	**(25,367)**
Income tax benefit	1,457	3,622
Net loss for the year	**(16,540)**	**(21,745)**
Group's share of net loss	**(3,308)**	**(4,349)**

10. Loan receivables

As at 31 December 2018 the Group had loan receivables from TAP AG in the amount of US dollars 10,999 (31 December 2017: US dollars 445,102). During the year ended 31 December 2018 the Group issued additional loans to TAP AG in the amount of US dollars 176,808 (2017: US dollars 183,947). Loan to TAP AG accrued interest at the rate of Swiss Safe Harbour Rate for EUR denominated loans as published by the Swiss federal tax authorities (2018: 0.75%) plus 1% margin and was equal to 1.75% in 2018 (2017: 1.75%). The loan matures in July 2043. Interest income earned during the year ended 31 December 2018 was US dollars 9,473 (2017: US dollars 8,868). On 27 December 2018 TAP AG settled its debt owed to the Group in the amount of US dollars 594,349 (EUR 519,003 thousand). The Group recognized exchange difference loss in the amount of US dollars 25,970 for the year ended 31 December 2018. As at 31 December 2018 and 1 January 2018 the Group recognized ECL on loan receivable from TAP AG in the amount of US dollars 65 and US dollars 2,784, respectively.

As at 31 December 2018 the Group had loan receivables from BOTAS in the amount of US dollars 234,686 (31 December 2017: US dollars 200,261). Receivables from BOTAS represent deferred consideration in the amount of US dollars 32,139 (31 December 2017: US dollars 31,052) and loan receivable in the amount of US dollars 202,547 (31 December 2017: US dollars 169,209). On 13 April 2015 the Group sold its 30% shares in TANAP A.Ş. to BOTAS for cash consideration of US dollars 168,226 and deferred consideration of US dollars 33,645. The deferred consideration does not bear interest and is expected to be repaid during 2020-2021. At initial recognition fair value of the deferred consideration was calculated as the present value using the market borrowing rate for similar financial instruments (3.5%) in the amount of US dollars 28,006. Income earned in respect of the deferred consideration from BOTAS during the year ended 31 December 2018 was US dollars 1,087 (2017: US dollars 1,050) and was recognized within interest income.

As discussed in Note 23, according to the Funding Agreement, following the sale of 30% shares of TANAP A.Ş., during the year ended 31 December 2018 the Group financed cash call requirements of BOTAS relating to 5% share in TANAP A.Ş. in the amount of US dollars 37,225 (2017: US dollars 82,700). The loan does not bear interest and is expected to be repaid in 2021-2024. At initial recognition of each debt obligation in respect of financing of cash call requirements of BOTAS, the present value was calculated using 5.72% market borrowing rate for similar financial instruments (2017: 4.43%) in the amount of US dollars 26,517 (2017: US dollars 61,934) and the difference between the fair value and carrying amount of loan in the amount of US dollars 10,708 (2017: US dollars 20,766) was recognized in profit and loss. Interest income earned in respect of the loan receivable from BOTAS during the year ended 31 December 2018 was US dollars 8,270 (2017: US dollars 6,414). As at 31 December 2018 and 1 January 2018 the Group recognized ECL on loan receivable from BOTAS in the amount of US dollars 1,449 and US dollars 1,106, respectively.

10. Loan receivables (continued)

On 9 February 2018 the Company entered into sale and purchase agreement ("TANAP SPA") with SOCAR Turkey Enerji A.Ş. ("STEAS") to sell 7% shares in TANAP A.Ş. Pursuant to the TANAP SPA, the Company sold 7% of its loan receivables from as well as 7% equity in TANAP A.Ş to STEAS. Fair value of total consideration amounted to US dollars 392,633 out of which US dollars 95,000 was paid on 22 February 2018. Remaining consideration in the amount of US dollars 297,633 was recognized as an interest bearing long-term loan receivables at the rate of 5.74% per annum and expected to be repaid during 2021-2024. Income earned in respect of the deferred consideration from STEAS during the year ended 31 December 2018 was US dollars 14,759 (2017: nil) and was recognized within interest income.

As discussed in Note 23, according to TANAP SPA, following the sale of 7% shares in TANAP A.Ş., the Company financed cash call requirements of STEAS relating to 7% interest in TANAP A.Ş. in the amount of US dollars 32,305 at average interest rate of 5.72% per annum. Loans are expected to be repaid in 2023-2024. Interest income earned in respect of the loan receivable from STEAS during the year ended 31 December 2018 was US dollars 516 (2017: nil). As at 31 December 2018 the Group recognized ECL on loan receivable from STEAS in the amount of US dollars 2,159.

As at 31 December and 1 January 2018 ECL on total loan receivables amounted to US dollars 3,673 and US dollars 3,890, respectively. Change in ECL balance amounted to US dollars 217 was recognized as gain within other income.

11. Cash and cash equivalents, deposits

Cash and cash equivalents consisted of the following at 31 December:

	2018	2017
Cash at bank, USD	194,035	146,403
Cash at bank, EUR	110,473	71
Cash at bank, AZN	28	124
Cash at bank, other	97	187
Total cash and cash equivalents	**304,633**	**146,785**

Deposits

On 28 December 2018 the Group placed deposit in the amount of US dollars 480,000 bearing interest rate of 2.53%. As at 31 December 2018 ECL on deposits amounted to US dollars 29.

12. Accounts receivable

Accounts receivable consisted of the following at 31 December:

	2018	2017
Receivable from BOTAS	11,938	–
Receivable from AGSC	11,267	176
Receivable from crude oil sales to third parties	6,559	6,347
Receivable from the SD Operator	2,553	5,929
Total accounts receivable	**32,317**	**12,452**

As discussed in Note 6, operations in Phase 0 of TANAP commenced on 30 June 2018. As of 31 December 2018, the ownership of gas in TANAP pipeline system belonged to BOTAS and TANAP A.Ş. is obliged to deliver the gas to the exit points under respective Gas Transportation Agreement. During the year ended 31 December 2018 the Group recognized revenue from BOTAS in the amount of US dollars 71,610 and as at 31 December 2018 account receivable from BOTAS amounted to US dollar 11,938.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

12. Accounts receivable (continued)

Receivables from AGSC represent SD natural gas sold to the parties under relevant gas sales agreements, for which no consideration was transferred to the Group as at 31 December 2018 and 2017.

According to the crude oil sales agency agreement, the Group appointed SOCAR Marketing and Operations Department ("SOCAR MO"), a subsidiary of SOCAR, as its trading and marketing agent in respect of SD PSA petroleum. SOCAR MO charges the Group commission fees for agency and marketing services at 0.5% (value added tax ("VAT") inclusive) of the value of crude oil sold. Receivables from crude oil sales represent a petroleum sold to third parties, for which no consideration was transferred to the Group as at 31 December 2018 and 2017.

13. Share capital, additional paid-in capital, other reserves and non-controlling interest

Share capital and additional paid-in capital

As at 31 December 2018 and 31 December 2017 the Company had authorized, issued and fully paid 100 ordinary shares at par value of US dollars 24,158 each. Each share entitles one vote to the shareholder. As at 31 December 2018 and 31 December 2017 additional paid-in capital amounted to US dollars 31,481.

Other reserves

On 13 April 2015 the Company sold its 30% interest in its subsidiary – TANAP A.Ş. to BOTAS. Total consideration comprised of cash consideration paid by BOTAS in the amount of US dollars 168,226 and fair value of deferred consideration in the amount of US dollars 28,006. On 16 April 2015 the Company sold 12% interest in its subsidiary – TANAP A.Ş. to BP for cash consideration of US dollars 97,423. The difference between the net book value of interest in net assets sold (US dollars 338,831) and the fair value of considerations received from BOTAS and BP was recognized as loss on sale of share in subsidiary in other reserves in the amount of US dollars 45,176.

On 9 February 2018 the Company sold its 7% interest in its subsidiary – TANAP A.Ş. to STEAS. Total consideration comprised of cash consideration paid by STEAS in the amount of US dollars 95,000 and fair value of deferred consideration in the amount of US dollars 297,633. Total consideration comprised of two components as loan payable by TANAP A.Ş. to the Company and equity in the amount of US dollars 202,279 and US dollars 190,354, respectively. The difference between the net book value of equity interest (US dollars 179,359) and the fair value of consideration received from STEAS was recognized as gain on sale of share in subsidiary in other reserves in the amount of US dollars 10,995.

Additional contribution to TANAP

During 2018 the Company, BOTAS, STEAS and BP made cash contributions to the charter capital of TANAP in proportion to their ownership interest. The contribution made by BOTAS, STEAS and BP in the total amount of US dollars 174,717 was recognized as an increase in the NCIs (31 December 2017: US dollars 347,340).

14. Borrowings and Government grant

As at 31 December 2018 and 2017 interest-bearing borrowings were comprised of the following:

Facility	31 December 2018	31 December 2017
Bonds	4,469,350	4,297,240
Loans from non-controlling shareholders	1,611,252	1,126,201
Loans from financial institutions	2,160,827	1,137,910
Total borrowings	**8,241,429**	**6,561,351**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

14. Borrowings and Government grant (continued)

Original currency and maturities of the borrowings as at 31 December 2018 are presented below:

Facility	Original currency	Maturity date	31 December 2018 Non-current portion	31 December 2018 Current portion
Bonds issued to SOFAZ	USD	May-November 2024	2,379,882	–
Eurobond 1	USD	March 2026	988,758	20,996
Eurobond 2	USD	March 2026	1,072,752	6,962
Loan from BOTAS	USD	2021-2023	983,601	–
Loan from BP	USD	2021-2023	395,424	–
Loan from STEAS	USD	2021-2023	232,227	–
Loan from IBRD	USD	December 2046	399,764	–
Loan from AIIB	USD	December 2046	603,324	–
Loan from EBRD	USD	October 2035	497,347	–
Loan guaranteed by ADB	USD	December 2032	514,930	–
Loan guaranteed by MIGA	USD	June 2033	130,452	–
Loan guaranteed by MIGA	EUR	June 2033	15,010	–
Total borrowings			**8,213,471**	**27,958**

Original currency and maturities of the borrowings as at 31 December 2017 are presented below:

Facility	Original currency	Maturity date	31 December 2017 Non-current portion	31 December 2017 Current portion
Bonds issued to SOFAZ	USD	May-November 2024	2,202,057	–
Eurobond 1	USD	March 2026	988,758	20,083
Eurobond 2	USD	March 2026	1,072,752	13,590
Loan from BOTAS	USD	2021-2023	803,055	–
Loan from BP	USD	2021-2023	323,146	–
Loan from IBRD	USD	December 2046	399,340	–
Loan from AIIB	USD	December 2046	590,476	–
Loan from EBRD	USD	October 2035	148,094	–
Total borrowings			**6,527,678**	**33,673**

Government grant

In accordance with the Presidential Decree dated 25 February 2014 SOFAZ, a governmental fund established for funding of important socio-economic projects, was assigned to finance the Group's acquisitions of interests in the projects described in Note 1. Following this Decree, in 2014 the Group issued bonds to SOFAZ in the aggregate amount of US dollars 2,516,996 with maturity period of 10 years. At initial recognition, the Group calculated the fair value of the bond using market rate for similar financial instruments (4.5% + 6 months LIBOR) and recognized US dollars 704,270 of difference between fair value and nominal amount of the bond as government grant in its consolidated statements of financial position.

During the year ended 31 December 2018 the Group recognized income from government grant in the amount of US dollars 18,896 which was recognized within other income (2017: US dollars 18,950).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

14. Borrowings and Government grant (continued)

Changes in liabilities arising from financing activities

	1 January 2018	Cash flows	Non-cash Flows (Note 13)	Finance cost	31 December 2018
Non-current interest-bearing loans and borrowings	6,527,678	1,179,930	202,279	303,584	8,213,471
Current interest-bearing loans and borrowings	33,673	(209,762)	–	204,047	27,958
Total liabilities from financing activities	**6,561,351**	**970,168**	**202,279**	**507,631**	**8,241,429**

	1 January 2017	Cash flows	Non-cash flows	Finance cost	31 December 2017
Non-current interest-bearing loans and borrowings	3,773,228	2,547,770	–	206,680	6,527,678
Current interest-bearing loans and borrowings	195,231	(286,842)	–	125,284	33,673
Total liabilities from financing activities	**3,968,459**	**2,260,928**	**–**	**331,964**	**6,561,351**

15. Decommissioning liabilities

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and pipeline assets. Movements in provisions for the related asset retirement obligations are as follows:

	31 December 2018	31 December 2017
Opening carrying amount	**108,259**	**82,709**
Additional liability during the year	20,680	22,262
Unwinding of present value discount	5,772	4,044
Effect of discount rate revision	(18,275)	(756)
Closing carrying amount	**116,436**	**108,259**

Under the provisions of the SD PSA, SCP and TANAP HGA all Contractor Parties will have to make contributions to an abandonment fund, which will be used to finance the decommissioning and dismantling of constructed assets after the maturity of the SD PSA, SCP and TANAP.

The maximum amount of decommissioning fund cannot exceed 10% of the capital costs in accordance with SD PSA. Decommissioning liability is estimated based on capital expenditures incurred in respect of assets already employed as at the end of each financial year. The Group share of the estimated undiscounted cost to abandon the production facilities employed in SD PSA was US dollar 194,313 as at 31 December 2018 (31 December 2017: US dollars 178,058).

The Group's share of expected undiscounted cost to decommission the SCP pipeline facilities at 31 December 2018 was US dollars 29,695 (31 December 2017: US dollars 26,450). The Group used a 2.5% (31 December 2017: 2.5%) inflation rate in its estimate of the retirement obligation upon termination of HGA.

The Group's share of expected undiscounted cost to decommission the TANAP pipeline facilities at 31 December 2018 was US dollars 204,409 (31 December 2017: US dollars 131,632). The Group used a 2.1% (31 December 2017: 2.1%) inflation rate in its estimate of the retirement obligation upon termination of HGA. The Group used a pre-tax rate that reflects current market assessments of the time value of money to discount expected decommissioning costs.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

16. Trade and other payables, accrued liabilities

Trade and other payables and accrued liabilities mainly consist of payables related to SD Stage 2 development, expansion of SCP and construction of TANAP pipeline systems as at 31 December 2018 and 31 December 2017.

17. Revenue

The Group's revenue consisted of the following for the years ended 31 December:

	2018	2017
Revenue from sale of gas	102,390	69,309
Revenue from sale of crude oil	79,568	57,394
Revenue from transportation of gas (Note 12)	71,610	–
Total revenue	**253,568**	**126,703**

According to the provisions of the SD PSA, the profit oil and gas is shared between the Government and the Contractor Parties depending on cumulative after-tax real rate of return achieved as at the end of each calendar quarter by the Contractor Parties. During four quarters of 2018 and 2017 the profit oil and gas was shared at a ratio of 55% to 45% in favor of the Contractor Parties.

Set out below is the disaggregation of the Group's revenue from contracts with customers:

31 December 2018	Oil and gas	Distribution	Total
Type of goods/service			
Sale of natural gas, net	102,390	–	**102,390**
Sale of crude oil, net	79,568	–	**79,568**
Transportation revenue	–	71,610	**71,610**
Total	**181,958**	**71,610**	**253,568**
Azerbaijan	181,958	–	**181,958**
Turkey	–	71,610	**71,610**
Total	**181,958**	**71,610**	**253,568**
Good transferred at a point in time	181,958	–	**181,958**
Services transferred over time	–	71,610	**71,610**
Total	**181,958**	**71,610**	**253,568**

18. Cost of sales

The Group's cost of sales consisted of the following for the year ended 31 December:

	Note	2018	2017
Depreciation and depletion	6	120,404	63,618
Other costs	5	12,429	11,367
		132,833	**74,985**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

19. Interest income

The Group's interest income consisted of the following for the year ended 31 December:

	Note	2018	2017
Accrued income on loan receivable from STEAS	10	15,275	–
Accrued income on loan receivable from BOTAS	10	9,357	7,464
Accrued income on loan receivable from TAP AG		7,578	7,096
Other interest income		2,607	4,944
Total interest income		**34,817**	**19,504**

20. Taxation

The Group's income tax expense consisted of the following:

	2018	2017
Current tax charge	5,284	5,968
Deferred tax charge	381	2,473
Income tax expenses	**5,665**	**8,441**

The Group does not file a consolidated tax return. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In accordance with Azerbaijani tax legislation, tax losses arising in one period can be carried forward for five years. SGC CJSC has accumulated losses in the amount of US dollars 445,695 in 2018 statutory books (2017: US dollars 187,908) which are not expected to be utilized within five years. The Group did not recognize deferred tax assets on these losses.

Taxation under the SD Project

According to the provisions of SD PSA, the contractor parties are liable to pay income taxes related to the operations under the SD Project. According to the same provisions, the respective state body of the Republic of Azerbaijan remits to the State Budget income taxes of each contractor party and reimburses the respective amount from condensate and natural gas attributable to the State. Accordingly, as a contractor party to SD PSA, the Group is liable for Azerbaijani income taxes and at the same time is entitled to additional profit petroleum. During the year ended 31 December 2018 and 2017 the Group had no income taxes from the activities in SD PSA as it declared losses in the tax books. There is no time limit on utilization of accumulated losses.

The Group is exempt from certain ordinary operational taxes including Azerbaijani value added taxes in accordance with provision of SD PSA.

Taxation under the SCP project

SGC Midstream LLC elected SCPC to represent it in all tax issues before the tax authorities, so that the Group is a non-tax electing shareholder in accordance with the terms of Azerbaijani HGA. SCPC is liable for Azerbaijani income tax and Georgian minimum tax with respect to the income and deductions of, and natural gas transported by, SCPC, which are allocable to non-tax electing shareholders, including the Group.

The following taxes have been enacted:

- Azerbaijani income tax at a fixed rate of 27%;
- Georgian income tax at a fixed rate of 25%;
- Georgian minimum tax (the "GMT") at a fixed rate of US dollars 2.50 per thousand of cubic meters of gas delivered to Georgian-Turkey border.

20. Taxation (continued)

Georgian income tax and minimum tax

According to Georgian HGA, SCPC is liable for the income tax at a fixed rate of 25% for income generated from operations in Georgia. In case SCPC does not generate taxable income during a fiscal year, it shall be liable for GMT. The GMT for the preceding periods can be carried forward without limitation and credited against future income tax liability of SCPC in Georgia. The Group estimates that the GMT will exceed the income tax under Georgian HGA.

The provision for income taxes mainly comprised of the Group's share in Azerbaijan income tax expense, Georgian minimum tax expense and deferred tax expense of SCPC for the year ended 31 December 2018.

Deferred tax liabilities of SCPC are calculated on the temporary differences arising from the differences in accounting under IFRS and HGA (accrual versus cash basis). As at 31 December 2018, the Group's portion in the deferred tax liabilities of SCPC equaled to US dollars 14,007 (31 December 2017: US dollars 13,563).

Operating tax of TANAP A.Ş

As per the HGA between the Government of Turkey and TANAP A.Ş. , it was determined that the corporate income tax of TANAP A.Ş. will only be based on the amount of natural gas transmitted from the pipeline after the pipeline is put in use. According to tax ruling received on 7 April 2017 TANAP A.Ş. is not subject to corporate tax. TANAP A.Ş. is required to pay tax of US dollars 5.95 per thousand cubic metrics of gas measured at entry point.

21. Transactions with related parties

Transactions with related parties consisted of the following:

	As at 31 December 2018				For the year ended 31 December 2018	
Related party	**Long-term borrowings**	**Advance payments**	**Accounts receivable**	**Loan receivables**	**Receipts from related parties**	**Settlements with related parties**
SOFAZ (Note 14)	2,379,882	–	–	–	–	–
AzSD	–	1,854,770	–	–	–	35,539
AzSCP	–	682,186	–	–	–	103,910
SOCAR MO	–	–	–	–	–	349
AGSC	–		11,267	–	89,561	–
STEAS (Note 10, 13, 14)	232,227	–	–	343,054	95,000	–
TAP AG (Note 10)	–	–	–	10,999	594,349	176,808
Total	**2,612,109**	**2,536,956**	**11,267**	**354,053**	**778,910**	**316,606**
Total category	**8,213,471**	**2,567,116**	**32,317**	**588,739**		

	As at 31 December 2017				For the year ended 31 December 2017	
Related party	**Long-term borrowings**	**Advance payments**	**Accounts receivable**	**Loan receivables**	**Receipts from related parties**	**Settlements with related parties**
SOFAZ (Note 14)	2,202,057	–	–	–	–	–
AzSD	–	1,819,231	–	–	–	713,594
AzSCP	–	578,276	–	–	–	56,277
SOCAR MO	–	–	–	–	–	224
AGSC	–	–	176	–	72,373	–
TAP AG (Note 10)	–	–	–	445,102	–	183,947
Total	**2,202,057**	**2,397,507**	**176**	**445,102**	**72,373**	**954,042**
Total category	**6,527,678**	**2,490,027**	**12,452**	**645,363**		

(Amounts presented are in thousands of US dollars, unless otherwise stated)

21. Transactions with related parties (continued)

AzSD

Settlements with AzSD (a subsidiary of SOCAR) during the year ended 31 December 2018 are represented by US dollars 35,539 advances paid for acquisition of 10% share in SD PSA and 8% share in AGSC under the DSPA (31 December 2017: US dollars 705,360). Refer to Note 23.

AzSCP

Settlements with AzSCP (a subsidiary of SOCAR) during the year ended 31 December 2018 are represented by US dollars 103,910 advances paid for acquisition of 10% shares in SCPC under the DSPA (31 December 2017: US dollars 56,277). Refer to Note 23.

SOCAR MO

SOCAR MO performs sale of crude oil on behalf of the Group and charges the Group commission fees for agency and marketing services at 0.5% (VAT inclusive) of the value of crude oil sold.

AGSC

AGSC is a company established by the contractor parties of the SD PSA for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of SD gas. Receipts from AGSC represent cash received in the amount of US dollars 89,561 (31 December 2017: US dollars 72,373) from sale of gas to AGSC.

Key management personnel

The senior management group consisted of the Group's General Director, Deputy General Director and three department directors as at 31 December 2018 and 2017. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category was:

	31 December 2018	**31 December 2017**
Aggregate remuneration	187	156
Number of persons	5	5

The Company also incurred expenses for management services provided by SOCAR Upstream Management International LLC and SOCAR Midstream Operations LLC in the total amount of US dollars 1,457 during the year ended 31 December 2018 (31 December 2017: US dollars 1,056) under the Operator Services Agreement signed in December 2014.

22. Financial risk management objectives and policies

Financial risk factors

In the ordinary course of business, the Group is exposed to credit, liquidity and market risks. Market risks arise from fluctuating currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize 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. Although there are no structured formal risk management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

22. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

(i) 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.

The floating rate for majority of interest bearing liabilities and assets exposes the Group to fluctuation in interest payments and receipts mainly due to changes in LIBOR, EURIBOR and EUR rate for cross border shareholders loans published by the Swiss federal tax authorities (ESTV).

	Change in floating variable		Effect on loss before tax	
2018	**Increase**	**Decrease**	**After increase**	**After decrease**
LIBOR	+0.5	-0.15	(17,353)	2,534
EURIBOR	+0.2	-0.01	(3)	–
EUR rate per ESTV	+0.5	-0.5	2,372	(2,372)

	Change in floating variable		Effect on loss before tax	
2017	**Increase**	**Decrease**	**After increase**	**After decrease**
LIBOR	+0.7	-0.08	(8,564)	697
EUR rate per ESTV	+0.5	-0.5	1,479	(1,479)

(ii) Credit risk

Financial instruments involve, to varying degrees, credit risks. The Group is subject to credit risk from its portfolio of loan receivable, cash and cash equivalents, deposits and accounts receivable and would be exposed to losses in the event of non-performance by counterparties.

The Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure of US dollars 1,425,880 and US dollars 804,600 as at 31 December 2018 and 31 December 2017, respectively.

The Group places its cash with high credit quality financial institutions, primarily with those rated A1 by credit rating agencies. The Group generally trades with recognized and reputable third parties. It is the Group's policy that all customers who wish to trade for condensate are required to procure the issuance of letters of credit. Gas sales are made through AGSC to state-owned entities or entities with strong financial position.

(iii) Liquidity risk

The Group monitors its risk to a shortage of funds by reviewing its net financial debt indicator on a regular basis. The net financial debt represents the difference between total financial liabilities and cash and cash equivalents. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

22. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2017 based on contractual undiscounted payments:

2018	On demand	3 to 12 months	1 to 5 years	>5 years	Total
Trade and other payables	–	50,766	–	–	**50,766**
Accrued liabilities	–	384,785	–	–	**384,785**
Short-term and current portion of long-term borrowings	–	232,753	–	–	**232,753**
Long-term borrowings	–	–	4,051,580	7,455,288	**11,506,868**
	–	**668,304**	**4,051,580**	**7,455,288**	**12,175,172**

2017	On demand	3 to 12 months	1 to 5 years	>5 years	Total
Trade and other payables	–	125,896	–	–	**125,896**
Accrued liabilities	–	281,406	–	–	**281,406**
Short-term and current portion of long-term borrowings	–	161,333	–	–	**161,333**
Long-term borrowings	–	–	2,732,194	6,575,962	**9,308,156**
	–	**568,635**	**2,732,194**	**6,575,962**	**9,876,791**

(iv) 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 considers total capital under management to be as follows:

	31 December 2018	31 December 2017
Long-term borrowings (Note 14)	8,213,471	6,527,678
Short-term and current portion of long-term borrowings (Note 14)	27,958	33,673
Less: cash and cash equivalents (Note 11)	(304,633)	(146,785)
Net debt	**7,936,796**	**6,414,566**
Equity attributable to the Group's equity holders	2,072,491	2,289,522
Capital	**10,009,287**	**8,704,088**
Gearing ratio	**79%**	**74%**

The target of the Group's capital management is to maintain the debt to equity ratio within 75-80%.

(v) 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 EUR. Foreign exchange risk arises primarily from future commercial transactions, recognized assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

22. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

The Group's foreign currency positions as of 31 December 2018 and 2017 are disclosed below:

	31 December 2018	31 December 2017
Foreign currency assets	126,877	445,173
Foreign currency liabilities	(15,010)	–
Net foreign currency position	**111,867**	**445,173**

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rates, with all other variables held constant, of the Group's loss before tax.

2018	Change in rates (+/-)	Effect on loss before tax
EUR/USD	11.00%/-7.00%	12,305/(7,831)

2017	Change in rates (+/-)	Effect on loss before tax
EUR/USD	12.50%/-7.50%	55,647/(33,388)

(vi) Fair value of financial instruments

The fair value of the financial assets and liabilities is included in 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 2018	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 11)	304,633	304,633
Deposits (Note 11)	479,971	479,971
Accounts receivables (Note 12)	32,317	32,317
Other current assets	6,721	6,721
Other non-current assets	13,499	12,396
Loan receivables (Note 10)	588,739	571,017
Total financial assets	**1,425,880**	**1,407,055**
Trade and other payables	(50,766)	(50,766)
Accrued liabilities (Note 16)	(384,785)	(384,785)
Short-term and current portion of long-term borrowings (Note 14)	(27,958)	(27,958)
Eurobonds (Note 14)	(2,061,510	(2,173,300)
Long-term borrowings, excluding Eurobonds (Note 14)	(6,151,961)	(6,161,783)
Total financial liabilities	**(8,676,980)**	**(8,798,592)**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

22. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

	31 December 2017	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 11)	146,785	146,785
Accounts receivables (Note 12)	12,452	12,452
Loan receivables (Note 10)	645,363	636,508
Total financial assets	**804,600**	**795,745**
Trade and other payables (Note 16)	(125,896)	(125,896)
Accrued liabilities (Note 16)	(281,406)	(281,406)
Short-term and current portion of long-term borrowings (Note 14)	(33,673)	(33,673)
Eurobonds (Note 14)	(2,061,510)	(2,276,900)
Long-term borrowings, excluding Eurobonds (Note 14)	(4,466,168)	(4,456,728)
Total financial liabilities	**(6,968,653)**	**(7,174,603)**

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

(i) Current financial assets and liabilities approximate their carrying amounts largely due to the current maturities of these instruments;

(ii) Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group using Level 3 inputs based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of customers and the risk characteristics of the financed project. Eurobonds are evaluated using Level 1 inputs based on quoted market prices.

The fair values of the Group's interest-bearing borrowings and loans receivable are determined by using the discounted cash flow ("DCF") method using discount rate that reflects the market borrowing rate as at the end of the reporting period.

23. Commitments and contingencies

Commitments related to participating interest in SD PSA

On 17 December 2013 SD consortium announced the final investment decision for Stage 2 development of SD gas field in the Azerbaijan Sector of the Caspian Sea and signed Sixth, Seventh and Eighth Addendums to SD PSA. The Group is committed to finance expenditures related to SD project based on its share of interest.

As of 31 December 2018 the SD PSA operator has entered into a number of capital commitments and operating leases. The Group estimated its 6.67% share of these capital commitments and operating leases in the amount of US dollars 259,605 and US dollars 47,540, respectively (31 December 2017: US dollars 383,984 and US dollars 20,565, respectively). The total of future minimum lease payments under non-cancellable operating leases for each of the following periods is as follows:

Operating leases	**31 December 2018**	**31 December 2017**
Not later than one year	17,114	8,897
Later than one year and not later than five years	29,791	11,668
Later than five years	635	–
Total operating leases	**47,540**	**20,565**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Commitments and contingencies (continued)

Commitment related to SCP Expansion

SD PSA Contractor Parties announced the final investment decision on SCP Expansion project on 17 December 2013. SCP Expansion project objective is to expand the existing SCP system capacity. Due to SCP Expansion additional facilities are constructed in Georgia for the purposes of interconnection with TANAP. The Group has the commitment to fund the SCP Expansion project equivalent to its 6.67% shares throughout the construction and operational phase. First commercial deliveries of gas under the SCP Expansion project took place on 30 June 2018 and as of 31 December 2018 the Group's share in the remaining budget for SCP Expansion is estimated in the amount of US dollars 10,112 (31 December 2017: US dollars 51,728).

Commitment related to TANAP

Construction of TANAP

At the financial statement date, the Group has capital commitment to fund the construction of TANAP system. As of 31 December 2018, the remaining budget for construction of TANAP system is estimated in the amount of US dollars 751,280 (31 December 2017: US dollars 2,796,897).

Commitment related to TAP

Construction of TAP

The Group has the commitment to fund construction of TAP system. In late 2018 TAP AG reached financial close under the project financing in the total amount of US dollars 4,537,991, provided by a large group of financial institutions. The Group acts as one of the guarantors of the loan facilities for the 20% shares that it holds in TAP AG and continues to provide required equity financing to TAP AG pro-rata to its equity share. As of 31 December 2018, the Group's share of the remaining financing for the construction of the TAP system is estimated in the amount of US dollars 50,830 (31 December 2017: US dollars 493,738).

Commitments related to participating interest in AGSC, TANAP, TAP and SCPC

BOTAS gas contract

AGSC is obliged under the gas contract signed with BOTAS to make available a maximum of approximately 6.6 billion Contract Cubic Meters (BCcm) of gas annually until the expiry of the contract at a price calculated based on a formula established by the gas contract.

Stage 2 SPA

On 25 October 2011, SOCAR and BOTAS executed a gas sale and purchase Agreement ("Stage 2 SPA") with respect to the sale by SOCAR to BOTAS of certain volumes of SD Stage 2 Gas (2 BCcm first year, 4 BCcm second delivery year, 6 BCcm plateau period). In December 2012, SOCAR transferred and assigned the rights and obligations under the Stage 2 SPA to AGSC. The commencement date under Stage 2 SPA was 30 June 2018.

BOTAS contract for BTC fuel gas

AGSC is obliged under the agreement with BOTAS to make available 0.15 BCcm of gas annually until the expiry of the contract at a price, which is calculated based on the formula established in the contract.

Azerbaijan gas obligation

AGSC is obliged under the agreement signed with SOCAR to make available a minimum of approximately 1.5 bcm of gas annually in 2019 and onwards at a price calculated based on the formula established in the agreement.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Commitments and contingencies (continued)

Commitments related to participating interest in AGSC, TANAP, TAP and SCPC (continued)

Georgian gas obligation

AGSC is obliged under the agreement signed with Georgian Oil and Gas Corporation ("GOGC") and the government of Georgia to make available 0.5 bcm of gas annually in 2019 and onwards, at a price which is calculated based on the formula established in the contract.

Sale and purchase agreement with South Caucasus Pipeline Option Gas Company Limited ("OptionCo", a wholly owned subsidiary of SCPC)

AGSC is obliged under the agreement signed with OptionCo to make available during each contract year a maximum of five percent of the volumes transported in the previous contract year by AGSC via SCP through territory of Georgia, at a price, which is calculated based on a formula established in the contract.

SD Stage 2 EU Long term Gas Sales Agreements ("GSAs")

In September 2013, ten EU GSAs were signed by SOCAR with nine EU Buyers (DEPA, Bulgargaz Shell, Uniper, Axpo, ENGIE, Edison, Enel, Hera) and in December 2013 the GSAs were assigned to AGSC until SD PSA expiry with re-assignment to SOCAR as SD Production declines. The commencement date will be firmed up through funneling mechanism as defined in the GSAs.

Trans Anatolian Pipeline Gas Transportation Agreement (TANAP GTA)

AGSC is a party to TANAP GTA with annual reserved capacity as defined in the contract. The start date will be set through a funnelling mechanism.

Trans Adriatic Pipeline GTA (TAP GTA)

AGSC is a party to TAP GTA with annual capacity as defined in the contract. The planned commencement date is between 1 January 2020 – 31 December 2020.

Societa Nazionale Metanodotti GTA (SNAM GTA)

AGSC is a party to SNAM GTA with annual reserved capacity as defined in the contract. The planned commencement date will be set through a funnelling mechanism.

Sale and purchase agreement with Baku-Tbilisi-Ceyhan Pipeline Company ("BTC Co")

AGSC is obliged under an agreement signed with BTC Co to make available 0.16 Bcm in 2019 and during the following years until the termination of the contract subject to the right of BTC Co to reduce annual off-take, at a price which is calculated based on the formula established in the contract.

BOTAS Gas Transportation Agreement (BOTAS GTA)

TANAP is a party to BOTAS GTA with annual reserved capacity during the build-up period, as defined in the contract, of 1.9 BCcm (12 month period commencing on start date), 3.8 bcm (next 12 month period) and plateau of 5.7 BCcm 24 months after the start date. The start date was 30 June 2018.

AGSC – SOCAR Gas Sales Agreement

Under the agreement for sales and purchase between AGSC and SOCAR dated 17 December 2013 ("AGSC – SOCAR Gas Sales Agreement") as further amended and restated, SOCAR is obliged to buy volumes of gas, stipulated in the agreement, within the period from September 2018 to June 2020 (with possibility of extension of the contract period until the end of 2020).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Commitments and contingencies (continued)

Commitments related to participating interest in AGSC, TANAP, TAP and SCPC (continued)

Framework agreement

A fully-termed Framework Agreement related to the novation of long-term GSAs and transfer of GTA capacity from AGSC to SOCAR after 2036 was executed on 19 October 2015 and further amended and restated on 28 September 2018.

Commitment under the DSPA

In July 2014 the Group signed the DSPA for the acquisition of 10% participating interest in SD project and 8% shares in AGSC from AzSD and 10% shares in SCPC from AzSCP. The agreement was subsequently amended by the 1st Addendum to the DSPA dated 20 December 2017. According to the terms of this agreement the Group shall make advance payments for these acquisitions to AzSD and AzSCP, while control will pass to the Group in March 2023, provided that certain conditions precedent are satisfied. As at 31 December 2018 the Group had commitment for SD Progress Payments and SCP Progress Payments to AzSD and AzSCP, respectively (as defined in the 1st Addendum to the DSPA) to be made till 31 December 2020. The management expects no further cash outflows in connection with the DSPA.

Commitment under the funding agreement with BOTAS (the "Funding Agreement")

On 26 May 2014 SOCAR and BOTAS signed Funding Agreement for financing BOTAS's 5% shares in TANAP A.Ş., upon acquisition of shares in TANAP A.Ş. by BOTAS. On 13 March 2015, the Group signed novation agreement with SOCAR and BOTAS, where all rights and obligations under the Funding Agreement were transferred from SOCAR to the Group. According to agreement with BOTAS, the Group has commitment for providing interest free loan to BOTAS for financing its 5% share in TANAP A.Ş.'s future cash call requirements throughout the Carry Period (as defined in the Funding Agreement).

Commitment under the Sale and Purchase agreement with STEAS (TANAP SPA)

On 9 February 2018 the Company signed TANAP SPA with STEAS with regard to the sale and purchase of 7% shares in TANAP A.Ş. According to the said agreement, the Company committed to provide interest bearing loans to STEAS for financing its 7% shares in TANAP A.Ş.'s future cash call requirements till Cash Call Longstop Date (as defined in the agreement), which should take place on or before 1 January 2020. The loans provided to STEAS are secured by the shares transferred in accordance with TANAP SPA and the relevant receivables attaching to those shares, subject to the conditions stipulated in the security agreements.

24. Current business environment

Azerbaijan economy

The Group's operations are mainly conducted in the Republic of Azerbaijan and the Republic of Turkey. As an emerging market, at the present time the Republic of Azerbaijan is developing 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.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

24. Current business environment (continued)

Azerbaijan economy (continued)

The Azerbaijan economy was 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.

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

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

Turkish economy

Turkish economy experienced a period of instability during 2018. Such instability was followed by significant inflation and devaluation of local currency against major foreign currencies such as USD and EUR by 40% and 33%, respectively.

While management believes it is taking appropriate measures to support the sustainability of 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.

These consolidated 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.

25. Material partly-owned subsidiary

As discussed in Note 10, the Group sold its 7% equity interest in TANAP A.Ş. on 9 February 2018 and as at 31 December 2018 49% of equity interest of TANAP A.Ş. was held by non-controlling shareholders (31 December 2017: 42%). As at 31 December 2018 accumulated balance of NCIs amounted to US dollars 1,343,104 (31 December 2017: US dollars 1,031,116).

The summarised financial information of TANAP A.Ş. is provided below. This information is based on amounts before inter-company eliminations.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

25. Material partly-owned subsidiary (continued)

Summarized statement of comprehensive income

	2018	2017
Revenue	71,610	–
Cost of sales	(51,656)	–
Gross profit	**19,954**	**–**
General and administrative expenses	(21,048)	(2,044)
Other income	154	322
Interest income	1,427	1,549
Finance costs	(86,166)	–
Foreign exchange loss, net	(215)	(273)
Loss before income tax	**(85,894)**	**(446)**
Income tax expense	–	–
Loss for the year	**(85,894)**	**(446)**
Other comprehensive income	–	–
Total comprehensive loss	**(85,894)**	**(446)**
Total comprehensive loss relevant to NCIs	**(42,088)**	**(187)**
Adjustments	–	2
Total comprehensive loss attributable to NCIs	**(42,088)**	**(185)**

Summarized statement of financial position as at 31 December

	2018	2017
Current assets	**28,377**	**17,575**
including:		
Cash and cash equivalents	947	722
Trade and other receivables	11,952	129
Inventories	4,003	–
Other current assets	11,475	16,724
Non-current assets	**6,419,077**	**5,499,812**
including:		
Pipeline cost	4,300,807	–
Construction in progress	2,091,183	5,411,748
Other non-current assets	27,087	88,064
Current liabilities	**394,010**	**349,719**
including:		
Trade and other payables and accrued liabilities	394,010	349,719
Non-current liabilities	**3,312,415**	**2,712,630**
including:		
Long-term borrowings	3,283,392	2,681,909
Decommissioning liabilities	20,631	24,071
Other non-current liabilities	8,392	6,650
Total equity	**2,741,029**	**2,455,038**
Equity attributable to NCIs	**1,343,104**	**1,031,116**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

25. Material partly-owned subsidiary (continued)

Summarised cash flow information

	2018	**2017**
Operating	27,439	24,391
Investing	(773,613)	(1,683,634)
Financing	746,399	1,659,421
Net increase in cash and cash equivalents	**225**	**178**

26. Events after the reporting date

Cancelation of loan facility with Asian Development Bank

Effective from 7 February 2019 the Group cancelled the entire loan under the Loan Facility Agreement with Asian Development Bank signed on 7 May 2017. The contractual amount of the loan under the Loan Facility Agreement was US dollars 500,000. The loan was unutilized as of the date of its cancellation.